SBA AUTHORIZATION AND OTHER SMALL BUSINESS LEGISLATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY,
MINORITY ENTERPRISE AND GENERAL
SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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CONTENTS

Page

Hearings held on:

April 11, 1983 1
April 21, 1983 89
April 27, 1983 197
May 3, 1983 335

Opening statements of:

Ireland, Hon. Andy, a Representative in Congress from the State of Florida 90
Mitchell, Hon. Parren J., chairman, Committee on Small Business 2, 89, 197, 335
Smith, Hon. Neal, a Representative in Congress from the State of Iowa 90

Panels consisting of:

Adams, Douglas F.; and Lawrence James 262
Cooper, Phillip; Edward Mayorga; and Mike Lackey 74
Horne, Will; Matthew Bacoate; and Chuck Byrd 50
Jones, Charles; Frank Abrams; and Jere Glover 272
Lowery, Bobby; and Ed Stewart 41
Millikin, Robert; John C. Weiss III; and Frank Brooks Robinson 232
Taylor, Julia; and Rex Harris 12
Webber, Jean; and E. Bruce Beasley, III 30

Testimony of:

Abrams, Frank, vice president, American Specialty Surety Council 283
Adams, Douglas F., financial associate, Detroit Economic Growth Corp 262
Bacoate, Matthew, president, Bacoate Disposables, Inc 61
Beasley, E. Bruce, III, president, Middle Atlantic Technology Center, Inc 34
Boxer, Hon. Barbara, a Representative in Congress from the State of California 358
Burns, Patrick Owen, president, Minority Equity Capital Co., Inc., and legislative chairman, American Association of the Minority Enterprise Small Business Investment Cos 124
Byrd, Charles, CPA and president, North Carolina Association of Minority Business, Greensboro, N.C 69
Coleman, Hon. Ronald D., a Representative in Congress from the State of Texas 336
Cooney, Rear Adm. David M., U.S. Navy (retired), and president, Goodwill Industries of America, Inc., Bethesda, Md 167
Cooper, Phillip, president, Cooper & Cooper, Inc., Raleigh, N.C 74
de la Garza, Hon. E., a Representative in Congress from the State of Texas 343
de Lugo, Hon. Ron, Delegate in Congress, the U.S. Virgin Islands 202
Gejdenson, Hon. Sam, a Representative in Congress from the State of Connecticut 362
Glover, Jere W., on behalf of the National Small Business Association 305
Hahn, Bruce, manager, government affairs, National Tooling & Machining Association, Fort Washington, Md 96
Harris, Rex, president and chairman, board of directors, Vanguard Investment Co., Inc.; accompanied by Norman Camp, president-elect, Vanguard Investment Co., Inc 20
Horne, Will, president, American Contract Packagers, Inc., Williamston, N.C 50
Hunt, Hon. James B., Governor, State of North Carolina 3
James, Lawrence E., member, loan committee, Corporation for Economic Development in Des Moines 265

Testimony of—Continued

Page

Jones, Charles, government affairs consultant, National Association of Minority Contractors 272
Kazen, Hon. Abraham, Jr., a Representative in Congress from the State of Texas 349
Lackey, Mike, business development center, Cherokee Indian Reservations, Cherokee, N.C 80
Lowery, Bobby, president, Better Cleaning Maintenance Supply, Inc., Charlotte, N.C 41
Mayorga, Edward, president, R&E Electronics, Inc., Wilmington, N.C 76
McNeish, Peter F., executive vice president, National Association of Small Business Investment Companies, Washington, D.C 184
Millikin, Robert, vice president, congressional relations, National Association of Certified Development Companies 232
Oberstar, Hon. James L., a Representative in Congress from the State of Minnesota, and cochairman, Northeast-Midwest Coalition 198
Ortiz, Hon. Solomon P., a Representative in Congress from the State of Texas 353
Panetta, Hon. Leon E., a Representative in Congress from the State of California 360
Robinson, Frank Brooks, president, Regional Industrial Development Corp. of Southwestern Pennsylvania (RIDC), and chairman, Pittsburgh-Countywide Corp. (PCW) 249
Sanders, James C., Administrator, Small Business Administration 209
Stewart, Ed, executive director, UDI/CDC, Durham, N.C 43
Taylor, Ms. Julia, president, Mechanics & Farmers Bank, Durham, N.C.; accompanied by David A. Johnson, vice president, National Bankers Assn 12
Teague, Randal C., Esq., counsel, Small Business Coalition for Pollution Control, Washington, D.C 133
Udall, Hon. Morris K., a Representative in Congress from the State of Arizona 340
Webber, Jean, president, Amico, Inc 30
Weiss, John C., III, senior vice president of finance, Baltimore Economic Development Corp. (Bedco) 245
Wincek, Thomas, chairman, Vietnam Veterans Foundation, Washington, D.C.; accompanied by Robert Sniffen, executive vice chairman, and Tom Burch, general counsel 157

Additional material supplied for the hearing record:

Abrams, Frank, vice president, American Specialty Surety Council: Prepared statement with attachment 286
Adams, Douglas F., financial associate, Detroit Economic Growth Corp.: Prepared statement 260
Bacoate, Matthew, president, Bacoate Disposables, Inc.: Exhibits and presentation 63
Bates, Hon. Jim, a Representative in Congress from the State of California: Prepared statement 370
Beasley, E. Bruce, III, president, Middle Atlantic Technology Center, Inc.:
  Letter to Hon. Parren J. Mitchell 39
  Prepared statement 36
Boxer, Hon. Barbara, a Representative in Congress from the State of California: Prepared statement 359
Burns, Patrick Owen, president, Minority Equity Capital Co., Inc., and legislative chairman, American Association of the Minority Enterprise Small Business Investment Companies: Prepared statement with attachment 127
Byrd, Charles, CPA and president, North Carolina Association of Minority Business, Greensboro, N.C.: Prepared statement 71
Coleman, Hon. Ronald D., a Representative in Congress from the State of Texas: Prepared statement 338
Cooney, Rear Adm. David M., U.S. Navy (retired), and president, Goodwill Industries of America, Inc., Bethesda, Md.: Prepared statement 169
Cooper, Phillip, president, Cooper & Cooper, Inc., Raleigh, N.C.: Prepared statement 76
Cox, James A., Jr., executive director, National Association of Rehabilitation Facilities: Prepared statement 175
de la Garza, Hon. E., a Representative in Congress from the State of Texas: Prepared statement 345

Additional material supplied for the hearing record—Continued

Page
- de Lugo, Hon. Ron, Delegate in Congress, the U.S. Virgin Islands: Prepared statement 204
- Gejdenson, Hon. Sam, a Representative in Congress from the State of Connecticut:
  - Prepared statement 366
  - "SBA's Role in Providing Disaster Assistance," excerpt from GAO report 363
- Glover, Jere W., on behalf of the National Small Business Association: Prepared statement with attachment 308
- Gore, Hon. Albert, Jr., a Representative in Congress from the State of Tennessee: Prepared statement 371
- Hardman, William E., executive vice president, National Tooling & Machining Association: Prepared statement with attachment 98
- Harris, Rex, president and chairman, board of directors, Vanguard Investment Co., Inc.: Prepared statement 23
- Horne, Will, president, American Contract Packagers, Inc., Williamston, N.C.: Prepared statement 58
- Ireland, Hon. Andy, a Representative in Congress from the State of Florida: Additional opening statement 91
- James, Lawrence E., member, loan committee, Corporation for Economic Development in Des Moines: Prepared statement 266
- Jones, Charles, government affairs consultant, National Association of Minority Contractors: Prepared statement 275
- Kazen, Hon. Abraham, Jr., a Representative in Congress from the State of Texas: Prepared statement 352
- Lackey, Mike, business development center, Cherokee Indian Reservations, Cherokee, N.C.: Prepared statement 81
- Lowery, Bobby, president, Better Cleaning Maintenance Supply, Inc., Charlotte, N.C.: Prepared statement 42
- Mayorga, Edward, president, R&E Electronics, Inc., Wilmington, N.C.: Prepared statement 78
- McDade, Joseph M., a Representative in Congress from the State of Pennsylvania: Questions of and responses from the Small Business Administration 230
- McNeish, Peter F., executive vice president, National Association of Small Business Investment Companies, Washington, D.C.: Prepared statement 189
- Millikin, Robert, vice president, congressional relations, National Association of Certified Development Companies: Prepared statement with attachments 235
- Panetta, Hon. Leon E., a Representative in Congress from the State of California: Prepared statement 361
- Robinson, Frank Brooks, president, Regional Industrial Development Corp. of Southwestern Pennsylvania (RIDC), and chairman, Pittsburgh-Countywide Corp. (PCW): Prepared statement 253
- Sanders, James C., Administrator, Small Business Administration: Prepared statement with attachment 212
- Stewart, Ed, executive director, UDI/CDC, Durham, N.C.: Prepared statement 45
- Taylor, Ms. Julia, president, Mechanics & Farmers Bank, Durham, N.C.:
  - Letter to Hon. Parren J. Mitchell 24
  - Prepared statement 17
- Teague, Randal C., Esq., counsel, Small Business Coalition for Pollution Control, Washington, D.C.: Prepared statement 136
- Udall, Hon. Morris K., a Representative in Congress from the State of Arizona:
  - Letters from Mayor Fontes and Mayor Bermudez 340
  - Prepared statement 342
- Unruh, Jesse M., treasurer, State of California, on behalf of the Council of Pollution Control Financing Agencies: Prepared statement 141
- Webber, Jean, president, Amico, Inc.: Prepared statement 32
- Weiss, John C., III, senior vice president of finance, Baltimore Economic Development Corp. (Bedco): Prepared statement 247
- Wincek, Thomas, chairman, Vietnam Veterans Foundation, Washington, D.C.: Prepared statement 164

APPENDIXES

Page
Appendix A.—H.R. 403 373
Appendix B.—H.R. 592 377
Appendix C.—H.R. 620 379
Appendix D.—H.R. 860 381
Appendix E.—H.R. 863 396
Appendix F.—H.R. 1375 403
Appendix G.—H.R. 1593 405
Appendix H.—H.R. 1779 407
Appendix I.—H.R. 1929 409
Appendix J.—H.R. 2132 412
Appendix K.—H.R. 2317 431
Appendix L.—H.R. 2583 434

SBA AUTHORIZATION AND OTHER SMALL BUSINESS LEGISLATION

MONDAY, APRIL 11, 1983

House of Representatives,
Committee on Small Business,
Raleigh, N.C.

The committee met, pursuant to notice, at 9:30 a.m., in the auditorium of the Fine Arts Building, St. Augustine's College, Raleigh, N.C., Hon. Parren J. Mitchell (chairman of the committee) presiding.

Mr. Mitchell. The committee will be in order.

Before I give my brief opening statement I want to offer my condolences and sympathy. I am sorry North Carolina did not fare better in the championship games, but there is always another year, and maybe you can come back and play some basketball next year. That is the best I can do.

Today the Committee on Small Business of the U.S. House of Representatives begins its first in a series of field hearings this Congress on both legislative and investigatory issues pending before it.

Specifically, we shall focus today on H.R. 2132, a bill designed to promote job creation through increased funding of existing and newly proposed Small Business Administration programs. In addition, we shall receive testimony on other general small- and minority-business problems which impede economic growth.

I know the members of the committee share my concern over the latest unemployment statistics of March 5, 1983, which show nearly 17 million Americans out of work. It has been my position, a position shared I think with most members of the House Small Business Committee, which I have the honor to chair, that most jobs are created by the small business sector and we must have that small business sector revved up so it begins to cut away at the unemployment that this country is now facing.

This is difficult to do because the small business failure rates are at an all time high. In the first 8 weeks of 1983 we set a new post-World War II record in small business failures. The bankruptcy rates went up 40 percent over last year.

We in the Congress have got to figure out a way to help small business through this difficult time, and in turn ask the small business communities of America to help us tackle the problem of unemployment.

Small business is still facing extremely high real short-term interest rates. Our small firms generally depend more on short-term credit than does large business. Small business has historically paid interest rates about 3 to 4 percent above inflation but now they are paying rates 7 to 10 percent above inflation. These rates are far too high to allow many small businesses to make the strong comeback necessary for economic recovery.

I believe that minority and small business, the primary source of new jobs, can lead the way in human capital development by providing permanent jobs and the increased productivity needed to revitalize America.

That is why I introduced H.R. 2132. It will provide small and minority business the chance to create jobs and provide the means for training new employees for these jobs. This Congress in which we serve must meet that responsibility. There is no way we can duck it.

This morning we will have testimony from both public and private sector witnesses. I wish to thank all of the witnesses for taking the time out of their busy schedules to be with us today. I also want to thank all of my friends here in the State of North Carolina. There are so many if I started to name names I would get embarrassed.

But in the 12 years that I have been in Congress, there are some people in this audience who have consistently worked with me on behalf of minority business and small business. Unfailingly they have come into Washingtion on their own, once every quarter, to work on legislation, regulations and so forth, and I am extremely grateful to all of you.

[The bill, H.R. 2132, appears as appendix J, p. 412, to these hearings.]

OPENING STATEMENT OF HON. PARREN J. MITCHELL, CHAIRMAN, COMMITTEE ON SMALL BUSINESS

Today the Committee on Small Business of the U.S. House of Representatives begins its first in a series of field hearings this Congress on both legislative and investigatory issues pending before it. In specific we shall focus today on H.R. 2132, a bill designed to promote job creation through increased funding of existing and newly proposed Small Business Administration programs. In addition we shall receive testimony on other general small and minority business problems which impede economic growth.

I know the members of the committee share my concern over the latest unemployment statistics (March 5, 1983) which show nearly 17 million Americans out of work. This is 15.3 percent of the civilian labor force and includes discouraged workers and other job seekers. The picture is not bright. Business failures in the first eight weeks of 1983 set a new post World War II record. The 4,852 failures in the first eight weeks of 1983 are over three times the 1,415 failures for the same period in 1980 and over 1,000 more than the 3,526 failures in 1982. More businesses have failed in the first twenty-six months of this administration (over 47,000) than in the previous five years (43,472).

Small business is still facing extremely high real short-term interest rates. Our small firms generally depend more on short-term credit that does large business. Small business has historically paid interest rates about 3 to 4 percentage points above inflation but now they are paying rates 7 to 10 percentage points above inflation. These rates are far too high to allow many small businesses to make the strong comeback necessary for economic recovery.

I believe that minority and small business—the primary source of new jobs—can lead the way in human capital development by providing permanent jobs and the increased productivity needed to revitalize America.

This is why I introduced H.R. 2132. It will provide small and minority business the chance to create jobs and provide the means for training new employees for these jobs. To accomplish these initiatives, we must begin the process of restructuring SBA programs such as direct and guaranteed business lending, pollution control financing, surety bond guarantees, and the investment company program and of directing this assistance where it is most needed. We will examine additional initiatives such as SBA equity financing for small concerns and grants to develop small business export potential. Small firms need massive amounts of financial assistance to participate in the projected economic recovery and the country needs the thousands of new jobs these businesses will generate. The Congress must meet this responsibility. We are here this morning to find out from the people of North Carolina their views on how we may best meet this obligation.

This morning we will have testimony from both public and private sector witnesses. I wish to thank all of the witnesses for taking the time out of their busy schedules to be with us today.

Mr. MITCHELL. I am very pleased that we have three Members of Congress with us to participate in this hearing this morning:

Mr. Chappie and Mr. Britt are both outstanding members of the House Small Business Committee. Congressman Ike Andrews I have known for at least 12 years, and I worry him on certain problems and he worries me on others. He insists that I smoke at least two packages of cigarettes a day because of the tobacco industry in North Carolina. But, seriously, I am delighted that you gentlemen could join us, and if you have a brief opening statement to make we will hear from you now.

Mr. CHAPPIE. No statement, Mr. Chairman.

Mr. BRITT. No statement.

Mr. ANDREWS. I simply welcome you here.

Mr. MITCHELL. Thank you very much.

Governor, it's a pleasure to have you as our lead-off witness, and I think we will move right into your testimony. I promised you I was going to tell on you, didn't I? I would have been on time to start the hearing but the chief executive of the State had a meeting this morning. That is why I was a few minutes late. So all the blame is on you, Governor.

I am delighted that you could take time to be here to testify before us.

TESTIMONY OF HON. JAMES B. HUNT, GOVERNOR, STATE OF NORTH CAROLINA

Governor HUNT. Mr. Chairman, thank you. I am proud to begin in this auspicious way.

Mr. Chairman, I do want to say how proud we are to have you all begin these hearings in North Carolina. I think that you are serving a very valuable purpose in conducting these hearings. I know that going out around the country holding hearings of this kind is a very tiring task, but I think it's one in which you learn a lot and I appreciate very much the fact you came to North Carolina.

I welcome you here on behalf of our people. North Carolina in the last census passed Massachusetts to become the 10th largest State in the Union. We have a lot of people here who are very concerned about these issues, and we are particularly proud to have you in this beautiful new fine arts building here at St. Augustine College, which is one of the fine colleges in this country.

By the way, Mr. Chairman, we appreciate your mentioning our basketball team which had recent success here in North Carolina. May I remind you, sir, that this is the second year in a row for a

North Carolina team, so we appreciate those condolences for 2 years instead of 1, and the talk here, Mr. Chairman, I know that you come from Maryland and Maryland, the University is a great part of the Atlantic Coast Conference. We sometimes wonder why they didn't win the championship more often.

Nevertheless, the talk is even in spite of Lefty Driesel's great recruiting success—he is fantastic at recruiting—that Valvano and Dean Smith are going to rotate that national championship back and forth between State and Carolina every other year.

I think the chairman is going to have the last word, so I had better get on with my statement.

Mr. MITCHELL. I am about to invoke the privileges of the Chair.

Governor HUNT. Thank you, Mr. Chairman.

I think that you have come to a good place to begin these hearings. I want to also welcome Congressman Britt and, of course, our own Congressman Andrews, whom we are very proud of as well as Congressman Chappie.

Small business in North Carolina is really the lifeblood of our economy. We have nearly 100,000 businesses in this State employing fewer than 20 persons, and that represents nearly 90 percent of the businesses in our State. In fact, the average firm in North Carolina employs under 17 people.

Second, recognizing the importance of those companies to our economy, our administration has set out on a broad front to provide assistance to small business.

In 1980 we established the Small Business Advocacy Council. Through a series of statewide hearings, with hundreds of witnesses coming and drawing our attention to the importance and needs of small businesses. They concluded those hearings with a statewide conference in which they reported all of the findings, and we addressed those over the course of the last 2 or 3 years throughout State government in many different areas. Among the things that were recommended from those hearings was having the general assembly of the State create house and senate small business committees for the first time, and those are now active.

We have in this State created our State's first business assistance division within our department of commerce. Previously our department of commerce focused primarily on recruiting new industry and business into our State. Now, with a major division entitled business assistance, we are providing technical, financial and managerial advice to small businesses, both those who are already here and those that want to begin.

Part of that division is the minority business development agency, which is headed by assistant secretary of commerce, Lou Myers, who incidently does a tremendous job in that capacity and I think is one of the most able young men in this State and in this country.

Among the many accomplishments of that agency is publication of the Nation's first minority business directory.

Mr. Chairman, I brought the newest version of that directory with me today for your information. I have it right here and I would like to make sure that you all get a copy of it. I am not sure if Lou has enough copies for all of the members of the committee, but I will deposit this one with you, if I may, Mr. Chairman, before I leave here.

Other activities of that agency have included organizing a series of meetings between the chief executive officers of major corporations to meet with their counterparts in minority owned business firms.

Those meetings, which I discussed with you earlier this morning, have resulted in hundreds of thousands of dollars in sales. These meetings have been more than just a traditional public affair. They have involved the top CEO's of the businesses that buy and purchase in this State with minority business leadership in various communities all over North Carolina, giving them an opportunity to really get to know each other on a first name basis so that they can feel free in picking up the telephone and calling each other and working with each other in a whole series of ways, both formal and informal.

We have held buyer and supplier conferences between small businesses and large corporations in this State. We have had a number of those. We have appointed blacks, Indians, and women to boards and commissions that deal directly with economic development.

But I want to say to you very clearly this morning, Mr. Chairman and members of this committee, that we are not satisfied with the program we have made in North Carolina. We are supporting State legislation that would enable local government to create its own outreach programs to encourage purchase of goods and services from small and minority businesses. We are continuing to increase funding for the State's minority business development agencies.

I have recently asked our State goals and policy board to undertake an intensive study of the needs of small businesses in our State and to make recommendations for further assistance, particularly in the area of financing.

Mr. Chairman, I share your concern that many small businesses in this country never get started because of the lack of financing. The continual double-digit interest rates make startup of a new business more risky than usual for normal financial outlets. People interested in starting a small business are caught almost in a catch-22 situation. They can get a loan, if they have a proven track record, but they can't develop a track record unless they get a loan to get started.

With great courage and hard work and ingenuity some minority businessmen and women in North Carolina have managed to break out of that cycle. Some of them are here today and I think will be appearing before this committee. I would urge you to pay special attention to their comments, based on firsthand experience.

Now, this is not a problem that will be solved by any one level of government, and the private sector will continue to be a key player, but looking at the changes underway in our country, with large companies accounting for fewer jobs, it's essential to our future that we act to strengthen the position of small businesses in our State and in this country.

Mr. Chairman, I would like to conclude my comments by saying that as Governor this State, I have regularly taken up with the members of my Cabinet and with other leadership in State government the things that we need to do in order to be fair and to give people a full opportunity to participate in government and in the economy and the life of the State. For example, I regularly talk about what we have done in terms of hiring people, all the way through the system, including the top managerial and policymaking levels in the various departments in State government. We keep a record of that and we talk about that record on a regular basis, and I pushed the leaders of various departments to do the right thing and to get good people who can serve this State very well. I think we have done a good job in terms of hiring, although I am not satisfied with that either.

In the matter of purchasing, or contracts, I am less satisfied.

You and I have had a discussion this morning already on our way here to this meeting, and you have shared with me the kind of approach of setting goals, not official goals altogether, but certainly goals that administrations in Washington have been committed to, and that they have had the people in Cabinets, people who head Cabinet departments and others, to commit themselves to, not always with perfect success but a goal to shoot for, something to measure their efforts by, and I have asked you to please provide for me how that process works at the Federal level.

I want to assure you, Mr. Chairman and members of this committee, that after we get this information, I intend to utilize an approach of that kind here in North Carolina, and I appreciate your willingness to provide information how Presidents have gone about this at the national level, because I think the approach you have described to me is one that would fit in with the North Carolina way of doing things here, and it is certainly one that I want to look at and try to utilize in this State.

So, Mr. Chairman, again we appreciate your coming here. We are honored by the fact that this Small Business Committee has come here as a place to start. We think it's essential that small business be strengthened.

Every time I turn around I see another way in which inadvertently, unconsciously, and certainly without purpose, we have tended to discriminate in tax laws, in regulations or whatever it may be, against small business.

I think a special focus on these kinds of businesses is essential if we are simply going to be fair. They don't have all of the lawyers on their staffs. They don't have all of the certified public accountants, all the public information officials, all the lobbyists in Washington or the State capitals that the big corporations have.

I think it is essential that the leaders of the Congress and that the leaders in State government go an extra step in trying to look out for them and to give them full and equal and fair opportunities, and I think that is what this committee has been about. You have had a great record during the existence of this committee, particularly under your leadership, and we appreciate your coming to North Carolina and giving our people an opportunity to have input into work of your committee and the Congress.

Mr. MITCHELL. Thank you very much, Governor, for your very interesting statement.

I want to congratulate you. As I understand it, North Carolina ranks next to California in bringing in new business. I hope you are not pirating them from my State.

Governor HUNT. No, sir. We go further north than that, Mr. Chairman.

Mr. MITCHELL. I congratulate you for that and also for the start of a good record in giving employment opportunities to minorities in State government.

Like you, I am concerned about the minuscule participation of minority contractors, minority businesses in State procurement. As I understand it, and you can correct me if I am wrong, something like only 1 percent of all State procurement goes to minority businesses. I think that is a fairly accurate figure. I would hope that with the commitments you have made this morning we could see a constant redoubling of effort in that particular area.

In December, President Reagan announced his goals to increase minority business participation in Federal contracting, Federal procurement to $5 billion a year for each of the next 3 years, and I would hope that the State of North Carolina under your leadership would come up with some similar kind of goal. If you set a goal and that doesn't have to be by law if you set a goal that each agency of government knows it has to play its part in reaching then I think you would see greater opportunities for small and minority business, and for minority businesses in particular, in the State.

My particular target right now is the Surface Transportation Act of 1982. That is a $7 billion bill program. When the President signed it into law, he OK'd in effect a 10 percent set-aside for minority businesses. That $7 billion is to be spent over the next 4 years and the 10 percent set-aside is a floor, not a ceiling. That means that theoretically $7 billion ought to come into minority businesses over the next 4 years.

The language of the amendment that I added onto the law is very clear. You do not have to be a contractor; you don't have to be in construction work. The law says, in effect, that any minority business whether, for example, it's a food supply firm or a law firm, if it is minority-owned, can participate. So I am convinced that because of the broadness of the language of my amendment, every State ought to be able to achieve its minimum 10 percent set-aside.

As you know, Governor, that is administered through the various State departments of transportation, and I would like if you can just give us a brief update as to what you have done vis-a-vis implementation of that particular law.

Governor HUNT. Mr. Chairman, I am afraid that I do not have the information right now on what we have done on that. I assure you that whatever the Federal provisions of the law are we will do in North Carolina. We have made some progress in terms of our hiring in the department of transportation, which was an area that was a tough one to crack, I might add, in this State, where you had a lot of career people who had been there for years and seemed to be staying on. That is an area where we have had of course great reductions in personnel in every State I think because of the falloff in gasoline funds.

Nevertheless, it's an area in which we will have additional moneys, and it is one in which we certainly ought to be doing the right thing and the fair thing in terms of minority contractors, and whatever the provision is with regard to what we should do, we will do, and I can assure you that I will talk to my secretary of transportation today about that matter.

I will ask for a report on what we have done thus far and I will transmit that to you and the members of this committee along with our other plans with regard to what we will do regarding this matter in the future.

Mr. Chairman, let me say that we have, I think, made good progress in our department of transportation. That is an area probably that most States have not done a very good job in. I am talking about the transportation area, because you have a lot of big contractors. But my information is that our department of transportation has led the country in department of transportation minority contracts.

I do not have exact information what the figures are, but I assure you Mr. Chairman, I will get them and provide them for you. We have put a special emphasis on that in the department of transportation in the last 2 or 3 years, and I will get you some figures with regard to that just as soon as we can get them up, and perhaps have them back to you in Washington about as soon as you get there.

Mr. MITCHELL. That will be excellent. If that same kind of a zeal can be applied to the implementation of the Surface Transportation Act, there is no reason why this State can't achieve its 10 percent.

Congressman Britt, do you have questions of the Governor?

Let me say how delighted that I am you came on the House Small Business Committee. Mr. Britt wanted to be on our committee and he certainly is a very able and effective member.

Mr. BRITT. Thank you, Mr. Chairman, indeed I did pursue this committee. I think this is one of the most important committees that we have in the Congress.

Two-thirds of the new jobs created in this country are created by small business and, as members of the committee, we are all striving to do what we can to increase that figure and get our economy moving and get people back to work.

Governor Hunt, last year you provided testimony on behalf of the Small Business Innovation Development Act of 1981. It is my understanding that a number of steps have been taken to assure that North Carolina small business takes full advantage of this legislation and its small business innovation research programs. Can you tell us what some of the steps are that you have taken in North Carolina?

Governor HUNT. Thank you, Congressman. We are very interested in this and we are very proud of the new efforts that the Congress has provided in this field.

As a first step, our efforts recently have involved our department of commerce in connection with our Governor's task force on science and technology, organizing a very successful small business research and development conference which was held here in Raleigh on January 26.

We asked those people to come in because it was our belief that an awful lot of people simply didn't know about these programs, didn't know how to participate, didn't know just the pure mechanics of how you go about getting involved.

We had 350 people come to that conference and stay all day; about 75 percent of them represented small business. The purpose of it, as I said, was to clarify and to publicize this legislation and its SBIR programs.

Let me say to you, Mr. Chairman, that we had wonderful help in putting on that conference. I think it was the first one of its kind in the country, from our house small business committee staff as well as from the U.S. Small Business Administration and the National Science Foundation and six other Federal agencies. They all came and presented information that our small business people needed in terms of how you get involved and you how can participate in this program. We have had a lot of requests from other States to share our experience in putting that on with them.

Then, our second step was a February 24 workshop on SBIR procedural preparation. That event was attended by about 45 representatives from our small business community, and we are very hopeful that that will result in those groups being involved in this and getting awards.

Now these first two events were geared between the first cycle of SBIR awards. To encourage participation in the second round of awards our science and technology research center is organizing a September 15 conference entitled "Profit Through Innovation," of which part of the agenda will be devoted to an update on the SBIR program.

Then, as an ongoing effort, we have publicized a first-point-of-contact phone number where small business can receive small business on solicitation deadlines and contact persons within each of the Federal agencies. Ultimately we expect small businesses to be able to use this phone number for referral on more complex questions on technical and management issues. We are trying to build that contact between the Federal agencies and the small business people here in this State. Again, they don't have representatives in Washington, and if we can develop a contact between them here and some person in the Federal agency, a telephone number that we can call, that will be very helpful.

I am very pleased with the interest expressed in our public and private universities and colleges. They are getting involved in helping provide the advice needed by small businesses in developing their proposals.

I expect this philosophy of cooperation to extend way beyond the SBIR programs and, Congressman Britt, we think that North Carolina is going to be deeply involved and we are doing everything we can to really get the word out. You really have a problem with information getting out to small business, and especially minority small businesses, where the communications are oftentimes not nearly as good as they ought to be. We are working very hard to try to make sure they know what is available and that we get the help to them on a step-by-step basis. We almost take them by the hand and lead them through this process of applying and being involved in getting the kind of help that the Congress has made available.

I found, Mr. Chairman, that so often the Congress has acted to provide help in different kinds of ways that big business knows about or takes full advantage of.

One of the things we can and must do at the State level is to help small businesses, those who would like to get started to find out what is available, to get that down to them. As we talk about our federal system and how it really ought to work, I think that is one of the important things that States can do and agencies can do, is to help insure that our people are involved with and know about and get help that you all have provided in the Congress in many different programs and different kinds of ways. So we are working very hard and I think that in this particular area, Congressman Britt, our work perhaps would be a model for other States.

Mr. BRITT. Just one last question. There are two programs that I am very proud of in the State. One is our Community College and Technical Institute system, which is an excellent system, and I think one that has really great implications for the future and for small business in particular, and also what we have done in microelectronics.

How do you see that impacting small business and how might other States use our experience in that regard?

Governor HUNT. I would simply agree with you that these are two crucial areas. The community college system, of course, is made to order. We have 58 of them in this State, 1 within driving distance of every citizen of North Carolina. The courses are very modestly priced and they have an Outreach Program so that they literally get out and help businesses and the industries in the area with the kind of training, with the kind of management help, that they need.

The New Jobs Training Partnership Act, of course, is one that we are going to be implementing very strongly in this State and that will work in large measure through the community colleges.

In the field of microelectronics, which we are moving into very rapidly here, with the Microelectronics Center of North Carolina here in the Research Triangle, with five major universities involved, those being: State, Duke, and Carolina, two of them having engineering schools, A&T University being part of that center, the University of Charlotte with its engineering school being part of that center, establishing a very sophisticated communications network so that all of them can literally tie in with all of the equipment, and so forth that is located in the Microelectronics Center physically located in the Research Triangle.

All of this is going on, but I think the important thing is that this has tremendous possibilities for small businesses, for innovators, for entrepreneurs, and again the fact that that is coming about here and that it is something in which a lot of times you have somebody with a good idea who needs some capital, and I think that the law and the programs we have been talking about are made to order in that field.

Now, again, there are a lot of ways we have got to be analyzing that to make sure that we are being fair and that minority businesses have an opportunity for a piece of that action too.

There are a lot of ways to do that and I think we should especially be looking at people who are in minority businesses to try to see that they are involved, see that there is a special involvement. I think the A&T University involvement, and that is of course in your hometown and in your district.

Mr. BRITT. An excellent school.

Governor HUNT. It means that we have real opportunities to do that, and we need to stay on top of that to make sure they are getting their share of the money and to make sure that they are getting special help as all innovators need in developing ideas that they will be having. I think that has great potential for jobs here in the future.

Mr. BRITT. Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman Andrews, do you have questions?

Mr. ANDREWS. No, but I thank you for permitting me to be a part of the hearing.

Mr. MITCHELL. Congressman Chappie?

Mr. CHAPPIE. No questions, Mr. Chairman.

Mr. MITCHELL. My committee members, you can't do this to me. You can't let the Governor get away without bombarding him with questions. [Laughter.]

Thank you, Governor.

In all seriousness, we will be watching North Carolina. I am especially interested in this State because it is one of the States that has an enormous minority business class right now and a good potential for even greater growth. It is really one of the better States in terms of existing minority business community strength, and I will be keeping an eye on your progress. I want to see continuous growth and I think it will occur with your help and with the help of Congressman Britt and the other members of the North Carolina delegation.

I know you are 10 minutes late for your next meeting.

Governor HUNT. Congressman, my next meeting is my volunteer work with young people in a high school here who are on the verge of dropping out. I am involved as a volunteer every week. I go and spend an hour or more in a high school. That is where I am going now.

I am sure that some of the young people I may be working with today have some ideas maybe that they would like to go into business, and I will share with them some of the ideas and thoughts of the committee and the kinds of opportunities that are going to be available to them.

Thank you very much for being with us.

I would like the next two witnesses to come up, Julia Taylor and Rex Harris.

Ms. Taylor is president of Mechanics & Farmers Bank, and Mr. Harris is chairman of the International Domestic Development Corp. I want to thank the two witnesses for being here. We have copies of your testimony which I have seen. Without objection, I will ask that the entire testimony be submitted for the record. It will appear in the record, and therefore, you can feel free, if you so desire, to simply go through and extract from your testimony the salient points that you want to make. I also want to publicly thank my friend. I don't know you as well as I know Mr. Harris. When did we first start working on minority business problems?

Mr. HARRIS. Eight years go.

Mr. MITCHELL. He has been consistently very, very supportive in everything that we have tried to do and I want to publicly thank you for all of your efforts.

Mr. HARRIS. Thank you.

Mr. MITCHELL. Ms. Taylor.

PANEL CONSISTING OF JULIA TAYLOR; AND REX HARRIS

TESTIMONY OF MS. JULIA TAYLOR, PRESIDENT, MECHANICS & FARMERS BANK, DURHAM, N.C.; ACCOMPANIED BY DAVID A. JOHNSON, VICE PRESIDENT, NATIONAL BANKERS ASSN.

Ms. TAYLOR. Thank you, Mr. Chairman, and members of the committee.

It is indeed a pleasure to come before you today in my capacity as president of the Mechanics & Farmers Bank, based in Durham, N.C., and also in my capacity as a member of the board of directors of the National Bankers Association, the trade representative of the Nation's minority-owned commercial banks. With me today is Mr. David A. Johnson, vice president of the National Bankers Association, Washington, D.C.

Mechanics & Farmers Bank was founded in 1908 and is among the oldest of the Nation's 45 black-owned commercial banks. We currently have nine offices, serving the four largest cities in North Carolina. The bank ranks sixth in deposit size among the country's black-owned banks with over $50 million in deposits.

Mechanics & Farmers Bank was 1 of 13 banks in existence in 1927 and, that year became a founding member of the National Bankers Association. Today, NBA represents 94 minority-owned banks which are located in 67 cities, spanning 32 States, the District of Columbia, and one U.S. Territory. These banks control over $4 billion in total assets.

Given the state of today's economy, coupled with shifting Federal priorities, which have been fostered by a budget and economic policies which we feel are both unfair to most citizens, and disastrous to our economy, today's hearing is most timely.

Investment in human capital is a paramount purpose of Government. Likewise, promoting an economic environment in which minority entrepreneurs can better marshal their talents and skills to achieve better lives for themselves, and in so doing make substantially greater contributions to a stronger economic base for America, is an investment of untold importance and a natural extension of the human capital element of Federal Government policies.

To date, the effects of an unbalanced budget have been devastating. Many arguments have been advanced favoring a balanced budget; the foremost of which links deficits to inflation and the process of crowding out of private capital markets. Needless to say, this scenario further exacerbates an already dismal picture regarding the availability of credit and adequate financing to small minority businesses.

Because of the magnitude of the budget problem, which has cut deeply into every fabric of our economy, I encourage this body to continue its push for a budget that is more balanced in analysis, philosophy, and expenditures than the current administration's proposals.

At this point, I want to briefly discuss bank deregulation and its potential impact on small business lending. By way of background, the financial services industry is undergoing rapid and substantial change, change that has touched us all in some form.

The financial services industry is a collection of firms principally engaged in the business of lending money, managing money, making markets, transferring funds, or providing insurance. Among the various kinds of institutions which serve as financial intermediaries are: depository institutions, investment firms, insurance companies, pension funds, financial conglomerates, finance companies, factoring and leasing companies, and government lending and insurance agencies.

The forces of inflation and the changing financial environment have resulted in the creation of new instruments and new financial or quasi-financial institutions. This has brought about an escalation of bank interest rate deregulation; intensified pressures to reduce geographic restrictions on financial institutions and a greater burden on deposit insurance agencies and Federal regulatory agencies responsible for administrative actions and monetary control.

Competition and regulation have resulted in financial industry consolidation, sort of a financial services smorgasbord environment, with fewer distinctions between allowable activities of commercial banks, thrift institutions, investment banks, and securities brokers and dealers. Cross-industry takeovers, mergers and acquisitions and entry from other industries continues to build steam as firms seek access to financial resources, data processing capabilities, economies of scale, production, and tax incentives.

As you are no doubt aware, the general rule is that small and minority businesses experience extreme difficulty in securing debt and equity capital, a situation that has been exacerbated by rising budget deficits and the ailing economy. This problem has led to a significant increase in the number of small business failures. A Dun & Bradstreet study reported 1981 business failures totaling over 17,000, a 157 percent increase over the 6,600 business failures just 2 years earlier. This is a problem of major proportions facing the small and minority business community, and when viewed together with the fact that most small businesses are undercapitalized, all have been operating in a high interest rate environment, securing credit is extremely difficult, if not impossible.

This bitter scenario gives rise to the need for policies to effectively eliminate the barriers faced by small businesses in their quest for access to the money and capital funds marketplace. In this regard, President Reagan, during his announcement on December. 17, 1982, of the administration's minority business development program, directed the Vice President's Task Force on Regulatory Reform "to explore opportunities for reducing regulatory and other barriers to small and minority business expansion." I encourage this body to make sure that directive is fulfilled.

In the United States, there are approximately 13,000 small- and medium-sized banks of $300 million or less assets. While these banks hold only 21 percent of total U.S. deposits, they comprise 85 percent of all commercial banks in the United States. Small business has consistently relied upon commercial bank credit to meet its financial needs. A recent survey by the Interagency Task Force on Small Business Finance indicated that approximately 70 percent of the money borrowed by small business came from commercial banks; the greater portion of which came from those small- and medium-sized institutions.

While this survey was not an exhaustive one, it does intimate that the security of the banking relationship for small business is one of the most valuable and tangible assets these small customers have. In addition, the survey pointed out that the marriage of small business and small banks is indeed significant. Without the support and financial assistance of the local banker, the small business firm has effectively lost its ability to finance itself.

In view of the heavy dependence placed by small businesses on this segment of the banking industry in meeting their financial needs, it is readily apparent that there exists legitimate concerns relating to the potential impact of deregulation on the availability of credit and other financial services—the small business life blood.

Admittedly, the banking industry is sharply divided on the issue of bank deregulation. Many large banks, for example, would advocate total deregulation, allowing the competitive free market to determine the survival of these institutions. However, small- and medium-sized banks argue that total deregulation could lead to the obliteration of local community-based banks by merger and acquisition. These banks contend, and the National Bankers Association supports this position, that such a proposal would effectively eliminate a major source of financing for small business, thereby pushing this segment of our business community closer to the "precipice of disaster." I do not think there is anyone in this room who would venture to envision the economic consequences of that scenario.

As I mentioned earlier, the merger and acquisitions byproduct of deregulation is quite real and the resulting threat to small and minority-owned banks is great. NBA is quite concerned about the potential effects on the availability of credit to minority entrepreneurs should this segment of the banking industry disappear, or be substantially diminished as a result of widespread mergers and acquisitions. As a result, NBA has been working with Chairman Mitchell and Congressman Fernand St Germain, chairman of the House Banking Committee, to win passage of an amendment to the Depository Institutions Act of 1982. This amendment would require Federal regulators to seek another minority financial institution as a merger partner for failing minority financial institutions, rather than approving a forced, involuntary merger with a nonminority institution. Such an amendment is not only good for minority banking, but also for minority business.

In my estimation, a minority bank priority merger partner amendment would aid in preserving a very unique and integral segment of the banking industry, thereby assuring the availability of credit and other financial services to a significant segment of the

American population. Small and minority business and small and minority banks are indeed a significant partnership.

Mr. MITCHELL. May I interrupt you for just a moment? We have an enormous witness list, and your entire statement will be put in the record. It would be fine just to go through your testimony to pick up the salient points. We have the NBA position on the amendment, which I support. If we could go through your statement, rather than reading the testimony in its entirety, to pick out the salient points you would want to make, it would help the committee a little bit.

Thank you.

Ms. TAYLOR. The equity financing proposal for small and minority business being considered here today is certainly an ideal vehicle through which these entrepreneurs can continue their immeasurable contributions to our Nation's economy. This proposal represents the beginnings of identifying a panacea to a longstanding problem—lack of capital market access.

H.R. 2132 provides an opportunity for the Nation's small and minority banks to play an even greater role in the development and expansion of the small business sector. We would strongly recommend that the Nation's minority-owned banks be looked upon to provide financial and management assistance to enhance the probability for growth and profitability of the businesses taking part in the equity financing program.

The proposal calls for the programs authorized by title III of the Small Business Investment Act of 1958, specifically MESBIC's, to make capital investment, through debenture and preferred security purchases in qualifying small business corporations and also making available debenture guarantees.

We suggest that the equity-type investments should be made in any of the following modes:

One, loans and warrants. Under this agreement, upon consummating the loan, the small business issues warrants enabling the lender to purchase common stock at a favorable price, during a specified period of time.

Two, convertible debentures. Under this arrangement, upon consummating the loan, the lender receives a debenture and has the option of accepting repayment of the loan or converting the debenture into an equivalent amount of common stock.

Three, common stock. Under this arrangement, the lender purchases common stock directly.

In either of the above scenarios, the equity-type investments may give the lender actual or potential ownership of a small or minority business. This situation would be of major concern to any businessman. To preclude this from happening, the lender should be statutorily prohibited from taking a position of control.

The interest rate charged, collateral requirements and the repayment terms are critically important. Generally, financings, whether they are of the equity type or the straight loan type, should be for at least 5 years or 10 year maximum. Repayment should be in periodic quarterly installments and should be designed to fit the firm's projected capacity to repay, as well as the needs of the lender. Consideration by the lenders should be given to deferring the loan's amortization during the early years, so as to give the business concern every opportunity for a solid start. Of course, as a standard practice, appropriate prepayment language should be included in the financing statement.

Loans should be priced and evaluated the same basic way for all businesses. Capital adequacy, character of borrower, record of stability, and growth and collateral are very important. Pricing should be based upon the wholesale costs of funds, or the weighted average cost of all lendable funds, with a certain margin added for overhead and profit. The interest rate charged should be made available at varying increments below commercial bank rates.

With regard to debenture purchases (nonconvertible), the lender should be required to subordinate its position to that of other bank borrowings. This materially improves the firm's chances of getting additional credit by strengthening its credit standing with banks and other lenders. The subordinate debt then becomes quasi-capital, or the equivalent of equity funds and acts as a protective cushion.

Another option that may be considered is that investments may be made at a negotiated amount with an agreement that the lender will advance additional funds after a specified period of time or after certain predetermined conditions have been achieved by the firm.

In closing, the ultimate success of this proposal rests not only with the financing but with the growth and profitability of the business. In that regard, it would be excellent to offer management services as a supplement to financing. Consideration should be given here to small and minority banks. More businesses fail because of poor management than any other cause. Good management without capital is failure. Capital without good mangement is failure. Good management and adequate capital spell success.

Virtually every growing small company has identifiable management strengths and weaknesses. The weaknesses may not become significant until the company enters a period of rapid growth, the type that often follows a major financing. Even the strongest small business can expect a host of new problems during such a period of expansion. If a company has an experienced banker as a partner, there is a good chance that new problems will be recognized quicker and dealt with more promptly and effectively than would otherwise to be case. We welcome the opportunity to strengthen the important marriage of the Nation's small and minority banks and businesses.

I want to take this opportunity to pledge the support of the National Bankers Association, its member banks, as well as its minority bankers' network, in the further development and implementation of H.R. 2132.

Thank you for allowing me this opportunity.

Mr. **Mitchell**. Thank you very much, Ms. Taylor. You see that your testimony caused me to use my pen quite a bit. I have a number of questions I would like to put to you. I think it might be better if we take both of these panelists and then direct questions.

[Ms. Taylor's prepared statement follows:]

PREPARED STATEMENT OF MS. JULIA TAYLOR, PRESIDENT, MECHANICS & FARMERS BANK, DURHAM, N.C.

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Because of the magnitude of the budget problem, which has cut deeply into every fabric of our economy, I encourage this body to continue its push for a budget that is more balanced in analysis, philosophy, and expenditures than the current Administration's proposals.

THE IMPACT OF BANK DEREGULATION ON SMALL BUSINESS LENDING

At this point, I want to briefly discuss bank deregulation and its potential impact on small business lending. By way of background, the financial services industry is undergoing rapid and substantial change; change that has touched us all in some form.

The financial services industry is a collection of firms principally engaged in the business of lending money, managing money, making markets, transferring funds, or providing insurance. Among the various kinds of institutions which serve as financial intermediaries are: depository institutions, investment firms, insurance companies, pension funds, financial conglomerates, finance companies, factoring and leasing companies and Government lending and insurance agencies.

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Competition and regulation have resulted in financial industry consolidation; sort of a "financial services smorgasbord environment" with fewer distinctions between allowable activities of commercial banks, thrift institutions, investment banks and securities brokers and dealers.

Cross industry takeovers, mergers and acquisitions and entry from other industries continues to build steam as firms seek access to financial resources, data processing capabilities, economies of scale production, and tax incentives.

Now, I have not yet touched upon the massive and complex pieces of financial reform legislation and regulatory agency pronouncements that have evolved simultaneously during this period. The pressure of change in the regulation of the financial services industry generated by the basic structural changes currently taking place is tremendous. In the context of deregulation and restructuring, I perceive that the small and minority business community, a major user of credit and financial services, has legitimate concerns relating to the impact of such changes on the orderly flow of funds and continued availability of financial services. Believe me, we bankers have some of the same concerns relating to how we might be doing business in the not-too-distant future.

As you are no doubt aware, the general rule is that small and minority businesses experience extreme difficulty in securing debt and equity capital; a situation that has been exacerbated by rising budget deficits and the ailing economy.

This problem has led to a significant increase in the number of small business failures. A Dun & Bradstreet study reported 1981 business failures totaling over 17,000, a 157 percent increase over the 6,600 business failures just two years earlier.

Needless to say, this is a problem of major proportion facing the small and minority business community, and when viewed together with the fact that most small business are undercapitalized and all have been operating in a high interest rate environment, securing credit is extremely difficult, if not impossible.

This bitter scenario gives rise to the need for policies to effectively eliminate the barriers faced by small businesses in their quest for access to the money and capital funds marketplace. In this regard, President Reagan, during his announcement on December 17, 1982, of the Administration's Minority Business Development Program, directed the Vice President's Task Force on Regulatory Reform "to explore opportunities for reducing regulatory and other barriers to small and minority business expansion." I encourage this body to make sure that directive is fulfilled.

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While this survey was not an exhaustive one, it does intimate that the security of the banking relationship for a small business is one of the most valuable and tangible assets these small customers have. In addition, the survey pointed out that the marriage of small business and small banks is indeed significant. Without the support and financial assistance of the local banker, the small business firm has effectively lost its ability to finance itself.

In view of the heavy dependence placed by small businesses on this segment of the banking industry in meeting their financial needs, it is readily apparent that there exists legitimate concerns relating to the potential impact of deregulation on the availability of credit and other financial services—the small business "life blood".

Admittedly, the banking industry is sharply divided on the issue of bank deregulation. Many large banks, for example, would advocate total deregulation, allowing the competitive free market to determine the survival of these institutions. However, small and medium-sized banks argue that total deregulation could lead to the obliteration of local community based banks by merger and acquisition. These banks contend, and the National Bankers Association supports the position, that such a proposal would effectively eliminate a major source of financing for small business, thereby pushing this segment of our business community closer to the "precipice of disaster". I do not think there is anyone in this room who would venture to envision the economic consequences of that scenario.

MINORITY BANKING PROPOSALS

As I mentioned earlier, the merger and acquisitions by-product of deregulation is quite real and the resulting threat to small and minority-owned banks is great. NBA is quite concerned about the potential effects on the availability of credit to minority entrepreneurs should this segment of the banking industry disappear, or be substantially diminished as a result of wide-spread mergers and acquisitions. As a result, NBA has been working with Chairman Mitchell and Congressman Fernand St Germain, Chairman of the House Banking Committee, to win passage of an amendment to the Depository Institutions Act of 1982. This amendment would require federal regulators to seek another minority financial institution, as a merger partner for a failing minority financial institution, rather than approving a forced, involuntary merger with a non-minority institution. Such an amendment is not only good for minority banking, but also for minority business.

In my estimation, a minority bank priority merger partner amendment would aid in persevering a very unique and integral segment of the banking industry; thereby assuring the availability of credit and other financial services to a significant segment of the American population. Small and minority business and small and minority banks are indeed a significant partnership.

On a related matter which also directly impacts the availability of credit at the nation's minority banks, is the Federal Minority Bank Deposit Program. Since its inception in 1970 during the Nixon Administration, this program has channeled federal dollars into minority banks. During the first three quarters of fiscal 1982, nearly $9 billion in federal deposits passed through these institutions.

Federal deposits have played an important part in the growth of the nation's minority banking industry. These public sector deposits translate into lendable funds which increases the availability of credit.

With the exception of President Reagan, the Minority Bank Deposit Program has been reaffirmed by every President since its inception over 12 years ago. However, to date, NBA has been unsuccessful in pursuading the current Administration to take affirmative action in recognition of the immeasurable contributions our banks make to minority economic and business development. NBA encourages your support on this issue.

RECOMMENDATIONS ON H.R. 2132 AMENDING THE SMALL BUSINESS ACT

The equity financing proposal for small and minority business being considered here today is certainly an ideal vehicle through which these entrepreneurs can continue their immeasurable contributions to our nation's economy. This proposal represents the beginning of identifying a panacea to a long-standing problem: lack of capital market access.

H.R. 2132 provides an opportunity for the nation's small and minority banks to play an even greater role in the development and expansion of the small business sector. We would strongly recommend that the nation's minority-owned banks be looked upon to provide financial and management assistance to enhance the probability for growth and profitability of the businesses taking part in the equity financing program.

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(2) *Convertible debentures.*—Under this arrangement upon consumating the loan, the lender receives a debenture and has the option of accepting repayment of the loan or converting the debenture into an equivalent amount of common stock.

(3) *Common stock.*—Under this arrangement, the lender purchases common stock directly.

In either of the above scenarios, the equity-type investments may give the lender actual or potential ownership of a small or minority business. This situation would be of major concern to any businessman. To preclude this from happening, the lender should be statutorily prohibited from taking a position of control.

The interest rate charged, collateral requirements and the repayment terms are critically important. Generally, financings, whether they are of the equity type of the straight loan type, should be for at least five years (10-year maximum). Repayment should be in periodic quarterly installments and should be designed to fit the firm's projected capacity to repay, as well as the needs of the lender.

Consideration by the lenders should be given to deferring the loan's amortization during the early years, so as to give the business concern every opportunity for a solid start. Of course, as is standard practice, appropriate prepayment language should be included in the financing agreement.

Loans should be priced and evaluated the same basic way for all businesses. Capital adequacy, character of borrower, record of stability and growth and collateral are very important. Pricing should be based upon the wholesale costs of funds, or the weighted average cost of all lendable funds, with a certain margin added for overhead and profit. The interest rate charged should be made available at varying increments below commercial bank rates.

With regard to debenture purchases (non-convertible), the lender should be required to subordinate it's position to that or other bank borrowings. This materially improves the firm's chances of getting additional credit by strengthening it's credit standing with banks and other lenders. The subordinate debt then becomes "quasi capital" or the equivalent of equity funds and acts as a protective cushion.

Another option that may be considered is that investments may be made at a negotiated amount with an agreement that the lender will advance additional funds after a specified period of time or after certain predetermined conditions have been achieved by the firm.

In closing, the ultimate success of this proposal rests not only with the financing but with the growth and profitability of the business. In that regard, it would be excellent to offer management services as a supplement to financing. Consideration should be given here to small and minority banks.

Virtually every growing small company has identifiable management strengths and weaknesses. The weaknesses may not become significant until the company enters a period of rapid growth—the type that often follows a major financing. Even the strongest small business can expect a host of new problems during such a period of expansion. If a company has an experienced banker as a partner, there is a good chance that new problems will be recognized quicker and dealt with more promptly and effectively than would otherwise be the case. We welcome the opportunity to strengthen the important marriage of the nation's small and minority banks and businesses.

I want to take this opportunity to pledge the support of the National Bankers Association, its member banks as well as its minority bankers network, in the further development and implementation of H.R. 2132.

Mr. Mitchell. Mr. Harris, can we hear from you next? Again, I would remind you that we have a copy of your testimony, and in order to expedite the hearing, if you would go through it and pick out your major points that you want to make, we would be most appreciated.

TESTIMONY OF REX HARRIS, PRESIDENT AND CHAIRMAN, BOARD OF DIRECTORS, VANGUARD INVESTMENT CO., INC.; ACCOMPANIED BY NORMAN CAMP, PRESIDENT-ELECT, VANGUARD INVESTMENT CO., INC.

Mr. Harris. Thank you, Mr. Chairman. I have had an opportunity to work with you the last 8 years. I know your patience, so I will assure you that I will not bore you, and that I understand that you read very well.

Let me first say to you that we are honored today to have you here. I have had an opportunity to work in the brainstorming session in Washington over the last 8 years, and I would just like to say that you have been the maverick for many of us that have been in business and that you have laid the groundwork not only for minority business or small business, but for white business as well.

We hope that one day that this country, this great country of ours, will elect a black Congressman from this district, or from this State, that can take some of the burden off of you, even though we have a very good Congressman in Charlie Rose, who happens to be in my district and works very well with you. But I say that we know that you understand our problem very well.

Let me move on. My name is Marion Rex Harris, president of the Vanguard Investment Co. I am also chairman of the board and chief executive officer. Sitting to my right is Dr. Norman Camp, who will be the president of Vanguard Investment Co.

I will just briefly talk about capital investment, venture capital, which is not available for minority business in this country. The

MESBIC venture capital is one of the few resources that is available to the minority businesses. Being in business, understanding how the system works, realizing why major corporations and major white businesses are able to grow is because of the availability of venture capital from major banks that will allow them big loans and defer the principal for periods of 2 to 3 years.

The MESBIC is one of the few that offer to the minority business venture capital which will allow you to operate and have the cash flow of the capital, which is not interest, but the capital of the investment where it can be deferred over a period of 3 to 5 years, which will allow the business to grow.

I would like to say that my company, which is a company that had been invested from one of the MESBIC's—$185,000—which allowed IDDC, International and Domestic Development Co., to grow.

There is a great need for more venture capital to be available. I say to you that we support the effort, and I would like to have Dr. Camp just briefly to make a statement on behalf of what we believe and what we see in the future, if there is more capital available. This is not a giveaway program that I am talking about. This is a very sound program for the Federal Government.

I can say to you that I lobbied in Washington for 10 days for the Chrysler deal, which was a very sound, good investment for this country.

I am saying to you today, Mr. Chairman, and to your colleagues in the Senate and the Congress, that we need to push forward to see that there is more venture capital available for minority businesses. It is needed more today than ever before. There are many minority businesses out there today that are barely surviving, not because of bad management, but because of lack of understanding, lack of knowing that the interest rate would rise to 15 or 20 percent.

I would say to you, Mr. Chairman, if you would list all of the top 100 businesses in this country owned by black enterprise, it will not be equal to the smallest of the Fortune 500.

I say to you and to the committee. You have dedicated your time and your life to small business in the House, and I am one who can say that I have reaped many of the benefits that you have fought for. Not only me, but there are many of us throughout this country, both blacks and whites, that have reaped the benefits from the efforts that you have made and worked toward over your career in the House to support small businesses.

Let me end by saying to you, Mr. Chairman, we again will say to you and to the committee, to the Senate and to the Congress, and to the President, that venture capital for MESBIC's is not a giveaway program. It needs to be well understood throughout the country. In many instances, in traveling, it seems to me that the majority, or most of the whites like to say that venture capital or the MESBIC investment companies are a giveway program.

Even though if you look at the history and the record and the initial stage of the venture capital and the MESBIC program, and understand why they were designed, they were designed for failures, for minority businesses, but I can say to you, in the last 5 years, there have been major changes. They were designed in such a way that major corporations such as IBM, General Motors, Ford, and other major companies could make contributions in venture capital to be leveraged by the Federal Government to be dished out to blacks in the black community, not because they were in business or had the capabilities. But from a political standpoint we have risen beyond that today, and again, I thank you.

I would just like to say that we are available for questions, but I would like to introduce to you Dr. Norman Camp, who soon will be president of Vanguard Investment Co.

Mr. MITCHELL. Thank you very much.

Mr. CAMP. Mr. Chairman and members of the committee, I will attempt to excerpt the paper that we have presented to you, pointing out some of the salient points.

Vanguard Investment Co. is a 301(d) small business investment company licensed by the U.S. Small Business Administration to finance small minority business concerns in North Carolina and nationally. Since 1976, the company has clung to the goal of becoming a dominant force in the development of minority enterprise firms into viable economic entities in their communities through servicing the venture capital needs of concerns owned by socially and/or economically disadvantaged persons.

During its existence, Vanguard Investment Co. has provided financing to eight surviving minority firms, who are meeting their debt obligation to us on a regular and consistent basis. Five of these concerns are in North Carolina and the other three are located one each in Detroit, Milwaukee, and Arlington, Va. These companies together employ a sizable number of persons and bring a significant amount of revenues to their communities annually.

Three of Vanguard's portfolio companies have failed during the period because of poor management. Additionally, two of our clients are experiencing difficult financial problems. Despite the difficulties shown by the three defunct companies and the two currently having problems, Vanguard Investment Co. and its directors are encouraged by the potential of the eight aforementioned surviving companies—namely, Great American Food Stores in Winston Salem, N.C.; Williamson and Lawson Office Products, Greensboro, N.C.; A&M Fast Foods, Inc., Charlotte, N.C.; B&C Associates, High Point, N.C.; Leon I. Roberts & Associates, Greensboro, N.C.; Development Associates, Inc., Arlington, Va.; TD&H, Inc., Detroit, Mich.; and Student Transportation Co., Milwaukee, Wis. Our portfolio totaled more than $1.6 billion for these minority owned and operated firms.

We feel very strongly that with adequate resources to assure reasonable prospects that their companies may be operated soundly and profitably if they receive active and prudent management guidance from the management and directors of our company. Also we feel unequivocably that the track record of Vanguard Investment Co. can be improved upon significantly. There is a great need for venture capital funds as authorized in section 23 of H.R. 2132 to assist minority and disadvantaged firms' entry into the economic mainstream of America.

The $100 million direct stock purchases, as well as $250 million for guarantee debentures are but token investment in disadvantaged America when weighed in light of our Government's investments in big corporate advantaged America.

Speaking for Mr. Harris, who lobbied personally 10 days, giving a total effort in Washington, for the successful bailout of the Chrysler Corp., the Chrysler Corp. investment was a wise investment for our Nation. As a result, the Chrysler Corp. is a thriving company. Similarly we feel that investments by our company in the SBIC/MESBIC industry are also wise and prudent.

Venture capital funds are neither handouts nor grants, but sound capital placement, that generate profits for our Government as well as the private business sector. By supporting the SBIC/MESBIC industry, our Government is supporting the free enterprise system and encouraging entrepreneurship. If enacted, this provision will make a positive impact on small business investment companies licensed by SBA and on the communities they serve.

The provision in section 23 will (a) improve significantly the capability of our firms to provide larger financings and better professional services to small business concerns; (b) permit our firms to impact significantly unemployment problems through the creation of new jobs in communities where our portfolio clients are located; (c) provide an additional incentive for private investors to provide capital for investing in 301(d) firms; and (d), finance a significant portion of the large number of, say, from 12 to 15 proposals that we receive monthly for financing.

So, Mr. Chairman, again, let us thank you for inviting Vanguard Investment Co. to present these comments before the committee.

[Mr. Harris' prepared statement follows:]

PREPARED STATEMENT OF REX HARRIS, PRESIDENT AND CHAIRMAN, BOARD OF DIRECTORS, VANGUARD INVESTMENT CO., INC.

Thank you for extending an invitation to me as a representative of the SBIC/MESBIC Industry to present to you comments at this hearing on H.R. 2132.

I am Marion "Rex" Harris, president and chairman of the board of directors of Vanguard Investment Company, Incorporated, Suite 3, 4517 Bragg Boulevard, Fayetteville, North Carolina. Vanguard Investment Company is a 301(d) small business investment company licensed by the U.S. Small Business Administration to finance small minority business concerns in North Carolina and nationally. Since 1976, the company has clung to the goal of becoming a dominant force in the development of minority enterprise firms into viable economic entities in their communities through servicing the venture capital needs of concerns owned by socially and/or economically disadvantaged persons.

During its existence, Vanguard Investment Company has provided financing to eight (8) surviving minority firms who are meeting their debt obligation to us on a regular and consistent basis. Five of these concerns are North Carolina based and the other three are located, one each, in Detroit, Milwaukee, and Arlington, Virginia. These companies together employ a sizeable number of persons and bring a significant amount of revenues to their communities annually.

Three (3) of Vanguard's portfolio companies have failed during the period because of poor management. Additionally, two of our clients are experiencing difficult financial problems.

Despite the difficulties shown by the three defunct companies and the two currently having problems, Vanguard Investment Company and its directors are very encouraged by the potential of the eight aforementioned companies, namely, Great American Food Stores, Winston-Salem; Williamson and Lawson Office Products, Greensboro; B & C Associates, High Point; Leon I. Roberts & Associates, Greensboro; A & M Fast Foods, Inc.; Charlotte, Development Associates, Inc., Arlington, Virginia; T. D. & H., Inc., Detroit, Michigan; and Student Transportation Co., Milwaukee, Wisconsin. Our portfolio investment totaled more than 1.6 million dollars for these minority-owned and operated firms.

We feel very strongly that with adequate resources to assure reasonable prospects that their companies can be operated soundly and profitably with active and prudent management guidance from the management and directors of our company.

Also, we feel unequivocally that the track record of vanguard investment company can be improved upon significantly.

I am proud to be able to mention here that in the June 1981 edition of "Black Enterprise" journal that a company that my partner and I established called "International and Domestic Development Corporation" appeared along with two other North Carolina companies (Sam Johnson Lincoln and Mercury, Inc. of Charlotte, and Fuller Oil Company, Inc. of Fayetteville) in a listing of the top 100 minority owned firms in the country. The same three (3) companies were featured again in the 1982 edition of "Black Enterprise". Further, I am reminded that the debt capital investment from Amistad Dot Venture Capital, Inc. enhanced significantly the growth of I.D.D.C.

Frankly, I feel the number of small minority businesses listed in "Black Enterprise" is much too small, given the high industrial growth potential forecasted for this nation. If all of the 100 black businesses listed in "Black Enterprise" were added together, their total worth would not equal the gross revenues generated by the least company listed among the fortune 500 companies of America. I can assure the committee and the Congress that given adequate resources in terms of small business financings and active participation by 301(d) companies there will be a significant increase in the growth and quality of minority owned and operated concerns across the nation.

There is a great need for venture capital funds as authorized in section 23 of H.R. 2132 to assist minority and disadvantaged firms' entry into the economic mainstream of America. The $100 million direct stock purchases as well as $250 million for guaranteed debentures are token investments in disadvantaged America when weighed in the light of our Government's investments in big corporate advantaged America.

I personally lobbied, giving 10 days of my total time and effort, in Washington for the successful bail out of the Chrysler Corporation. The Chrysler Corporation investment was a wise investment for our Nation. As a result, the Chrysler Corporation is a thriving company. Similarly, investments be our Government in the SBIC/MESBIC industry are wise and prudent. Venture capital funds are neither handouts nor grants, but sound capital placements that generate profits for our Government as well as the private business sector. By supporting the SBIC/MESBIC Industry, our Government is supporting the free enterprise system and encouraging entrepreneurship.

If enacted this provision will make a positive impact on small business investment companies licensed by SBA and the communities they serve.

The provisions in section 23 will:

(A) Improve significantly the capability of our firms to provide larger financings and better professional services to small business concerns;

(B) Permit our firms to impact significantly the unemployment problem through the creation of new jobs in communities where our portfolio clients are located;

(C) Provide an additional incentive for private investors to provide capital for investing in 301(d) firms; and

(D) Finance A significant portion of the large number (12–15) of monthly requests for financing.

Mr. **Mitchell.** Thank you very much.

If I could, I would like to put some questions to Ms. Taylor and Mr. Harris. Why don't you all stay right there because I have some for questions both of you.

Ms. Taylor, with regard to your testimony, do you have at hand a record of your bank's loans to small and minority businesses over the last 2 years?

Ms. **Taylor.** No, I do not have a record at hand. We can get that for you.

[The letter referred to above follows:]

Mechanics and Farmers Bank,
Durham, N.C., Apr. 21, 1983.

Hon. Parren J. Mitchell,
Chairman, Committee on Small Business,
Washington, D.C.

Dear Congressman Mitchell: Thank you for the opportunity to testify before your committee on Apr. 11, 1983 in Raleigh, N.C. regarding H.R. 2132.

As you know, Mechanics and Farmers Bank is one of the oldest minority banks in the United States and from its inception the bank has been dedicated to assisting minority businesses. At the present time we have 154 loans with outstanding balances of $5,478,763 to minority businesses. Since Jan. 1, 1983 we have made 33 loans totaling $648,960 to minority businesses. One of the primary reasons we are unable to assist more minority businesses is that they lack sufficient equity capital. H.R. 2132 addresses this problem. If America is to continue to prosper, a representative share of minorities must be able to participate in the mainstream, and this cannot be done adequately unless the Government is willing to provide some assistance.

My testimony also addressed the Federal Minority Bank Deposit Program. Every President since 1970 has reaffirmed this program. However, it is my understanding that the current administration has failed to do so. We would appreciate your support on this issue as these deposits enable us to have more dollars to lend in the minority community.

Thank you for your interest.

Sincerely,

Mrs. J. W. Taylor,
President and Chief Executive Officer.

Mr. **Mitchell**. Off the top of your head, do you have a ballpark figure how many such loans you have made in the last year or two?

Ms. **Taylor**. I do not, because I have been isolated in the Raleigh office and we operate in four different cities, so collectively, I cannot tell you.

Mr. **Mitchell**. Thank you. I would appreciate your supplying the information for the record. I hope your track record is a good one. I suspect that it is.

Ms. **Taylor**. I am sure it is good, because we are dealing primarily with minority businesses.

Mr. **Mitchell**. For years, I had to be the umpire and referee between small businesses and minorities and minority banks, and I think we have come a little closer to a good working relationship than we have had in the past.

In your testimony you indicated you would offer management services. I think that is very laudatory for the banks to offer management services. I wonder how many banks really have a capability of doing that, No. 1. No. 2, you have a whole host of agencies that are out here which are supposed to be offering management and technical assistance. The Small Business Administration is supposed to be doing that. The Minority Business Development Center is supposed to be doing that. The Small Business Development Centers in various colleges and universities, such as the one at the University of Georgia, all of these are supposed to be doing that. I am wondering whether or not we are overloading on the management and technical assistence end of it and really not meeting the money end of it. Would your bank be able to do management assistance?

Ms. **Taylor**. It was not my intent to indicate the bank should provide management services. It is my intent to say that funds should be available through this program to provide management assistance.

Mr. **Mitchell**. Fine. I am glad you cleared that up. If you start doing it, you get some of the other agencies off the hook that are supposed to be doing it but are not in my opinion.

Now, Mr. Harris, and Mr. Camp, when you become president, how do you counter the argument in Washington that I have been hearing for at least 12 years: MESBIC's should not be a part of any

Government operation in the private sector which operates to provide venture capital. In one Small Business Committee hearing we had someone testify that in the area of high tech, there is plenty of venture capital.

How do you counter that very fundamental argument that providing venture capital ought to be solely and exclusively an operation of the economic system in the private sector?

Mr. HARRIS. I can only answer that by saying that you could take that same argument and deal with Chrysler and put it on the line today. If you notice from the last 5 years. This is the first time a few blacks have begun to control investment companies. Basically they were totally owned by major companies.

To give an example, the investment company we own. We bought it from Reynolds. Imagine that they had not only limited the investments that could be made in the State of North Carolina, they could only be made in that particular county. If you look at the track record on it, not only that one, but throughout this country, the first 6 years was totally disastrous because, as I said before, the venture capital and my version of it as a businessman, was designed to be used as a political mechanism, with the black population not dishing out to those who were capable or had the background or had a successful record, but dishing it out to those that danced to the tune of the political arena, regardless of what party it may be or what individual it may be.

I can say that I have heard a lot of loud cries in the last 3 years about cutting out the venture capital. Only because I think there are certain track records that are successful today. I can say that Vanguard is one of them. If there is any success at all, there is success in Vanguard.

In winding up the answer to the question, one of the things that really disturbs me about that is, that when you look at the venture capital and you look at your major corporations that control it, and you look at the failure record in the venture capital that was dished out to the minorities, that was coming from totally the Fortune 500 that had a good success story. Why didn't they lend some of their leadership and have successes rather than having 80 percent failure?

I totally, Mr. Chairman, disagree with that argument. I believe that the venture capital is not available for blacks in this country and I can stand here and testify to you that is a fact. It has only become available to a black company at the point when he really doesn't need venture capital, and I can say to you, that that is a very big disadvantage to minorities. Many of them fail, not from the lack of management, but because they can't afford to grow.

Mr. CAMP. Let me add to that by saying the American Association of MISBIC's cited some, I think, alarming statistics between 1974 and 1982. The MESBIC industry invested over $260 million in 4,247 minority businesses. They have run that out on a computer.

Mr. HARRIS. $61,219.68 maximum.

Mr. CAMP. Per industry, per concern. So we aren't seeing much of the money that goes to the big advantaged corporations, like Chrysler, and I recall the bailout for Penn Central, and there are probably countless others that the U.S. Government bails out, the kind of welfare that it gives big corporate America. So I think the argument is invalid.

Mr. MITCHELL. Let me say I think most people in this room know I have supported MESBIC's. I came out strong in the beginning, but 3 years later, I got very angry with MESBIC's because they were being as cautious as the regular lending institutions. I told them, you have got to take some risks. I must say that over the last 5 years, I am very pleased that most of the problems that MESBIC's were experiencing have been worked out and the majority of them are doing very well.

One last question. You get 12 to 15 applications a month. How many of those can you handle? What time period does it take to handle one application?

Mr. HARRIS. If I had the funds, I could do an evaluation within a week on any.

Mr. MITCHELL. Within a week?

Mr. HARRIS. Yes, sir.

Mr. MITCHELL. You don't have the funds. How long does it take?

Mr. HARRIS. When you don't have the funds, you just make an evaluation and put a plus or minus, saying this would be a good one to invest in. But at this point we just don't have the finances to invest.

Mr. MITCHELL. Your statement is 12 to 15 applications a month?

Mr. HARRIS. Yes sir.

Mr. MITCHELL. How many of those, which would be good business risks, are you able to handle?

Mr. HARRIS. Mr. Chairman, I could say to you that we did an evaluation just last week on all the applications that had come in to us in the last 4 months. Out of the applications, I believe we had something like 72. I think we determined that out of the 72 there would be about 16 that would be good, sound investment. One that we feel very strongly that maybe could become a major company, because it is dealing in services and computers and because we are in an era of technology where we believe that venture capital should be invested somewhat today. It is just that we don't have the funds to invest.

Mr. MITCHELL. But, in other words, you came into 16, and you really couldn't help them?

Mr. HARRIS. No, we could not help them because we could not invest enough capital, Mr. Chairman. We could only hurt them because we did not have enough funds. We could only invest $125,000, and most of the companies needed more than that. It would have been a disadvantage for us to invest knowing that their cash flow could not survive their long range plan. It would have been a total failure for Vanguard, and been another statistic in the record books as a failure for a minority business which never had a chance in the first place, because there was not enough capital there to get it off the ground.

Mr. MITCHELL. This is really my last question: You would then generally support a position where SBA would give greater leverage?

Mr. HARRIS. Yes sir.

Mr. MITCHELL. What is the present formula, four to one?

Mr. HARRIS. Four to one.

Mr. MITCHELL. A maximum of four to one?

Mr. HARRIS. I also will support the position that funds such as DOT for rail-related ventures should be leveraged against the Federal funds.

Mr. MITCHELL. Thank you.

Congressman Britt.

Mr. BRITT. Two quick questions, Ms. Taylor.

Can you tell us what practical problems you find, what roadblocks or hurdles in the administration, in the requirements and regulations, that you consistently find in trying to make loans to minorities or small businesses. What are the things that keep you from making loans? Is there anything we can improve or to facilitate having these available to minority and small business?

Ms. TAYLOR. Again, most often they are undercapitalized and banks as such cannot provide that capital for them. So there needs to be some mechanism to provide that capital.

Mr. BRITT. There is no major impediment in the regulations, in the process, nothing coming out of Washington, putting roadblocks, other than the fact there the money is not available?

Ms. TAYLOR. Yes, sir.

Mr. BRITT. Mr. Harris and Mr. Camp, of your three businesses which have been successful, all are located in my district, and we are proud of that and proud of our very fine banks that we have in the district. Mr. Fry, who is now a Supreme Court Justice, started one of those banks.

A similar question is, what if you could go to the drawing boards, what would you say to us in Small Business that is most urgent in terms of making money available to minority entrepreneurs?

Mr. HARRIS. I would say that I think there is a real need, and it is to the best interests of this country, today more than ever before, that there be more funds available to leverage venture capital for minority business because I believe that looking at what we call a recession today, is not only having a great impact on minority business, on basically small business, but there are whites who have track records which are somewhat different than those of blacks.

You can walk into the bank with the same portfolio and there are no funds available for blacks, and I am saying that venture capital in many cases has taken a second position and given the bank the first position and taken a debenture in order to allow enough capital to flow through and it would go in as venture capital, the bank would go in as the principal interest on day one. We would defer principal maybe 3 to 4 years, which would allow that business to grow and employ and become a very viable business.

I say that 80 percent of all the minority business failure in this country today is a failure on day one before they open their doors. It is a failure because of the lack of knowledge, the lack of experience, and the lack of available capital.

If the major corporations that have set up the investment companies would give the assistance and the management as freely as they give the venture capital, I would say 80 percent would change to a ratio equal to that of the white businesses in this country.

Mr. BRITT. No further questions, Mr. Chairman.

Mr. MITCHELL. Mr. Chappie.

Mr. CHAPPIE. Just two brief questions.

Mr. Harris, assuming that additional capital were available, how much expansion in your portfolio could you handle at this time?

Mr. HARRIS. Just to give you a good example. When you say how much we could handle, I am prepared to staff. We have built in Vanguard—we are on computers in my company, we have Telex, we have an in-house a certified accountant, which means I have cut the budget of the investment company between 40 and 50 percent by building into my management system to allow it. So I would say it would almost be unlimited. I think that we have the ability to handle venture capital and build a team beyond what we have to develop major businesses throughout this country. I think we have the ability. I think I have a track record that speaks for itself.

I believe if we could leverage the kind of dollars needed, 80 percent of all portfolios that come into our offices could be financed, if it is a good investment, and if you had enough capital. We cannot just put $50,000 or $60,000 in there because we are doing a disservice to that company.

I would say to you, sir, that it will be almost unlimited to the numbers we could fund. I think we have the ability in my organization to service and help manage a billion dollars in venture capital.

Mr. CHAPPIE. What is your current portfolio?

Mr. HARRIS. We have out $1.6 million. But the limitation that is put on you by SBA—which I total disagree agree with—is that they do not allow you to invest but a certain percentage of your funds into one portfolio. One of the things I believe that could happen, if we were able to make larger investments in a small business talking about computers in the service of industry, and if we could invest in and help the management, this could become a major business.

I think what we are doing in the venture capital program and the way it is set up today, we are spreading ourselves too thin with dollars and cents. We are not able to really invest into a company to make it grow as it needs to. We are very limited. There are some changes that I think need to be made available.

I would end up by saying to you, we have joint ventures, certain ventures, and I have made a decision in our investment company, unless we can control those joint ventures from our management, we are very vulnerable to the lack of management of the other MESBIC's and we put in a small amount, which gives us less leverage and less debentures, yet still we have no control in the MESBIC's that have the finance, and we have no leadership to direct the company that they invest in.

Mr. CHAPPIE. Thank you.

Mr. MITCHELL. I want to thank all of the witnesses. Your testimony has been very provocative and very informative.

Let's pursue the idea of increasing SBA's leverage. I don't know how much we can get with that, but at least we will try.

Thank you very much for your testimony.

Mr. HARRIS. Thank you.

Mr. MITCHELL. Why don't we take an 8-minute break, so we can try to stay on track. We will resume in 8 minutes.

[A short recess was taken]

Mr. MITCHELL. Our hearing is now ready to resume.

Our next witnesses will be Ms. Jean Webber, and Mr. Bruce Beasley. I thank both of you for coming and taking time to be here with us today. We have copies of your statement, Ms. Webber, and Mr. Beasley. The entire statements will be submitted for our reporter. It would be advantageous if you could just go through and give us the highlights of your testimony. I would appreciate it.

Ms. Webber.

PANEL CONSISTING OF JEAN WEBBER; AND E. BRUCE BEASLEY III

TESTIMONY OF JEAN WEBBER, PRESIDENT, AMICO, INC.

Ms. WEBBER. First of all, I would like to thank you, Mr. Chairman and your committee, for coming to North Carolina to listen to some of the things we might have to say.

I am Jean Webber, president of AMICO which stands for American Minority Industries, Inc. We are located in High Point, N.C. We manufacture computer cards, bank teller cards, turnpike tickets, and airline boarding passes. We also distribute other computer supplies, such as magnetic tapes, floppy discs, disc packs and continuous forms.

AMICO was established in Charlotte, N.C. in 1976, and I have to commute from Charlotte to High Point every day. At that time there were only two companies making computer cards between D.C. and Atlanta—AMICO and another company by the name of NECS. We had to compete at that time with a so-called small business that turned out to be a major company, and which that had not had a small business status for many years. So in our case, it was just like an ant going up against an elephant to try to get off the ground.

There are about 13 makers of computer cards in the country, and to name just three of them, IBM is No. 1 in the industry; Globe Ticket, which is owned by U.S. Banknote, and Data Documents, which is owned by Pitney-Bowes.

Now, we want to talk about some unfair competition problems that I faced. Competition will play games with you. They will play the games never played, they will make up new ones, they will add to the old ones, and they will turn around and tell you there are no games.

For instance, competition had us going out of business from the day we started. The rumors continued until we purchased the assets of that company in High Point. During all of this, a carload of salesmen came to our property one day, and instead of coming through the front door, they decided they were coming through the back door. You know if I had done this, I would have been in jail. I would have been arrested.

Mr. MITCHELL. Why did they come in the back door?

Ms. WEBBER. They wanted to see what this small operation was doing.

Mr. MITCHELL. To sort of case the joint?

Ms. WEBBER. They wanted to case the joint. This is a true story, because later we hired the sales manager and he confessed he was one of the ones in the car that day.

In November 1981, we purchased the assets of NECS, and with it came a platemaking division. This division was housed in a separate building from our main operation, and it had a separate lease. OK, when this happened, our competitors, who had bought additional assets for this company, and they were more or less in a specialty type business, went to this facility where our platemaking division was located, gave the man a 5-year lease on the building and turned around and came to us and said OK, I will give you $30,000 for your equipment. Now, that is one way that they were going to happen, they were going to take it away from us, and that is totally unfair.

I resent this because this cost us an additional $18,000, which we didn't have at that time, but we had to come up with it. Competition with majority firms putting the squeeze on. At the present time, AMICO is the only minority firm on the Federal supply schedule for tab cards. In approximately 1980 the largest maker of tab cards did not bid the schedule for this item. They are now bidding at such low prices that it is affecting us tremendously and we are having to take the 8(a) set-aside for tab cards in region 4 at a price where we can't make a profit. These majority firms make and sell several other items. I feel that the Small Business Committee or SBA should look at certain areas of the Federal supply schedule and assure designated set-asides are for minority and small businesses only.

Due to the recent cutbacks at SBA, I am experiencing losses in revenue due to the lack of staff. I mentioned before to several of you in just talking that I think we have one of the best district offices in Charlotte. We have good people working there, they are very supportive of the program, and they work very hard to help us to get the job done. I think we have a good regional office. But in addition to this, there are cutbacks. They don't have enough staff to help process the paperwork. Therefore, we cannot get the services because when a crisis hits a minority business, you know we need things to happen sometimes right away. But they don't have the help. They don't have the support to get the paperwork done, so it has created a problem.

I am in a situation where I have a new contract every 6 months because that is the way the item is bid on the Federal supply schedule. If that contract comes in on schedule, and most of the time it does, when I request an advanced payment, and that advanced payment comes in a month before the contract ends, then I am losing money.

I can remember that happened last summer. I lost about $10,000 on late charges that I had to pay the suppliers because the advanced payment was not in place.

Mr. MITCHELL. Excuse me, I don't like to interrupt but I am forced to do it here. On this particular contract, when did you put in for your advanced payment, and how long did it take to get it?

Ms. WEBBER. I put in for the advanced payment about 2 months prior to the beginning of the contract when we were negotiating the prices.

Mr. MITCHELL. Roughly what month would that have been? Can you remember?

Ms. **Webber**. OK, it probably happened in October or November for the contract that was coming up for February 1.

Mr. **Mitchell**. All right, when did you finally get your advanced payment?

Ms. **Webber**. A month before the contract ended.

Mr. **Mitchell**. That was 6 months?

Ms. **Webber**. July.

Mr. **Mitchell**. You were just praising SBA.

Ms. **Webber**. OK, listen, I am praising the regional and my district office. You know where it got hung up?

Mr. **Mitchell**. Washington.

Ms. **Webber**. That is exactly right. It sat on the desk and the worker refused to process it because he said SBA had processed it wrong, but he wouldn't call back or try to even move it. The only way I got it moved was to come to your office and to my Congressman's office from Charlotte to make it move.

Mr. **Mitchell**. I won't interrupt you again.

Ms. **Webber**. That is all right.

With regard to opportunities for training and jobs, in the past we have cooperated with the Urban League, with the pretrial release programs and with the colleges in our areas. By training some of these individuals, we have lost money participating in these programs. Some of the individuals we trained in the areas of sales, have been able to get good positions with majority firms.

We have taken great risks in hiring persons with criminal records while the majority firms will not hire them. We felt that these people needed a second chance.

I am happy to report that we have been able to keep the young folk working. We have people that we have trained who are still with us and they are taxpaying citizens today.

If training funds were available now, we could hire persons in the platemaking division, in our art department, in our machine shop, and test laboratory. We could also train about 20 persons for permanent employment in these areas and in other areas, such as press operators or accounting and order entry. I am very supportive of H.R. 2132, and certainly of the funding provisions there.

The Small Business Administration has been working under a continuing resolution. It is my understanding that there is no budget and that they have been working with uncertainty of funding. The bill would give some continuity to the various programs, and certainly would offer some incentive to minority and small business.

[Ms. Webber's prepared statement follows:]

Prepared Statement of Jean Webber, President, Amico, Inc.

I am Jean Webber the president of Amico, Inc. (American Minority Industries Company). Amico is located in High Point, North Carolina. We manufacture computer cards, bank teller cards, turnpike tickets and airline boarding passes. We also distribute other computer supplies such as magnetic tapes, floppy disc, disk pacs and continuous forms.

Amico was established in 1976 in Charlotte, North Carolina. At the time there were only two companies making computer cards between D.C. and Atlanta. Amico and another company by the name of NECC. We had to compete with this so called small business who turned out to be a major company that had not been a small business for many years.

There are about thirteen (13) competitors in the tab card industry today: IBM; Globe Ticket, owned by U.S. Banknote; Data Document, owned by Pitney Bowes, and others.

PROBLEMS

Unfair competition

Competition will play games never played, make up new ones, add to the old ones, then turn around and tell you there are no games. For instance, competition had us going out of business a month after we cranked up the machines and the rumors continued until we purchased the assets of that company. During all of this however, a car load of their salesmen came to our facility, went to the back door and proceeded to enter. If I had done this to my competition I would have been jailed for trespassing. This is true because I later hired their sales manager and he confessed that he was with the car load of salesmen that tried to get into our plant.

In November, 1981 when we purchased the assets of NECS with it came a plate making division, this division was housed in a building with a separate lease. Our competition, one of the wealthy Belk Brothers in this state, leased the building for five (5) years. He then came to us and said "I will give you $30,000.00 for the equipment because we hold the lease on the building." What I am trying to tell you is that even in the eighties—Whites are trying to take away what little progress we have been able to make. This situation cost our company an additional $20,000.00, which we had not anticipated.

Competition—majority firms putting on the squeeze

At present Amico is the only minority firm on the Federal Supply Schedule for tab cards. Prior to 1980 the largest maker of tab cards did not bid the schedule for this item. They are now bidding and at such low prices that it is affecting us tremendously in taking the 8(a) set aside for tab cards in Region Four at a price where we can make a profit.

These majority firms make and sell several other items as well. I feel the Small Business Committee or SBA should look at certain areas of the Federal Supply Schedule and assure designated set asides for Minority and Small Businesses only.

Small Business Administration

Due to recent cut backs at SBA I am experiencing losses in revenue due to lack of staff. I have mentioned before that my Minority Business Specialist in Charlotte and Atlanta are about the best but because of lack of sufficient help it is very difficult to process the paper work, therefore I am half way through a contract before the advance payments are in place. In my situation, I get a new contract every six (6) months. During one contracting period of 1982 the advance was not in place until the last month of the contracting period. I incurred about $10,000.00 in late charges from our suppliers.

Call Contractors or Consultants—We are in dire need of a consultant. We have been waiting several weeks for assistance in this area.

Opportunities—training and jobs

In the past we have cooperated with the Urban League, Pre-trial Release Program, and colleges in our area by training some of these individuals. We have lost money participating in these programs. Some of the individuals we trained in the area of sales have been able to get good positions with majority firms.

We have taken great risk in hiring persons with criminal records while the majority firms would not hire. We felt that they needed a second chance and I am happy to report that we have been able to keep the young folk working. They are now tax paying citizens who have proven that if given the opportunity they can change.

If training funds were available now we could rehire persons in our plate making division, art department, machine shop, and test laboratory. We could also train about twenty (20) people for permanent employment in these area and in other areas such as press operators, accounting and order entry department.

Supportive of H.R. 2132

I am very supportive of the funding provision in H.R. 2132. The Small Business Administration has been working under a continuing resolution. It is my understanding that there is no budget and they have been working with uncertainty for funding. The Bill would give some continuity to the various programs and offer some incentives to Minority and Small Businesses.

Mr. MITCHELL. Thank you very much.

I do have some questions, in just a moment.

Mr. Beasley.

TESTIMONY OF E. BRUCE BEASLEY III, PRESIDENT, MIDDLE ATLANTIC TECHNOLOGY CENTER, INC.

Mr. BEASLEY. Thank you very much. I appreciate the opportunity to appear before you this morning. I serve as president of the Middle Atlantic Technology Center which has a cooperative relationship agreement with the U.S. Department of Commerce, Minority Business Development Agency. Our center is 1 of 11 located across the country.

We are on the cutting edge of the technology commercialization effort. Our thrust is to assist minority business, to create new businesses, thus creating jobs in the country.

We work with both minority and majority companies, but as we develop the commercialization process to move our projects, products, and the process forward, one of the pieces of the puzzle must be a minority entity. It can be minority financing, it can be a minority inventor, or it may be a minority company that creates this business, but some part of the puzzle must be provided by the minority entrepreneur. We review slightly more than 100 projects per year. These are in different stages and different areas of development. We have a project review committee that looks at our projects to determine the validity. We face a number of frustrations in our development process, and I am sure these are not unlike those in the Small Business Administration.

We have $50,000 per year to use for product development funding. These fundings enable us to assist our clients with product development, whether it be to develop a prototype or whether it be to develop marketing assistance. We work cooperatively with the Small Business Development Centers. They might provide clients to us who need specialized services in developing a new business and creating new jobs.

Our frustration that we face is not unlike that of SBA because of the Small Business Innovation Research Act which has been alluded to here this morning. This program is to assist small R&D companies to get new technology into the marketplace.

One of my primary concerns is this, what about those projects and products that are not approved? Is there going to be some method to assist those individuals in getting those products into the marketplace?

As I am sure you are aware, those products and processes are tailored primarily toward Federal agency needs. I am not sure those are the needs which exist across the country. I believe that is a starting point, and I am well aware of the battles that were fought to develop that process. But as that program unfolds and develops in the years to come, I am hopeful that more latitude will be allowed those people and individuals who have products and processes to put into the program.

A small firm might be successful acquiring one of these agency grants. As has been discussed, my concern then comes, in the funding module.

To get the grant to do the research and development is all well and good but that product has then got to be put into the marketplace. No jobs are going to be created, no economy is going to be improved unless that process is first created and then marketed.

That is where my concern is: We already have in this country a tremendous amount of technology which is setting on the shelves. A great deal of that is Federal technology, funded by the Federal Government, and I believe that is going to be changed by this act.

My concern now is what is going to happen once we get the technology approved, once we go through stages one, two, and three. We have a great and growing product. Where is small business going to get the money to fund a product and to get it into the marketplace?

This is a real concern and this was alluded to by Vangard Investment Co. who say they are already looking at a number of products they don't have the money for.

I believe that the Small Business Innovation Research Act is going to make that number greater. I think next year at this time instead of 16, the number is going to increase by 25 or 30 percent. Vanguard is going to have that many more that it is going to be able to look at.

So I think as real as the need is today to increase the funding level, the need is going to be greater in the future to parallel these who not only do have the R&D money available. Many people are tiptoeing around hoping that R&D money is not cut off. My concern is that somebody now begins to look as this R&D comes out, once we have gone through stage one, two, and three of development, that we have some funds in place to put those projects in the marketplace.

I am hopeful H.R. 2132 will address this because of the equitable position.

Quite possibly there will be funding available for small business and new industries to take the new technology to the marketplace. As I look at technology that is ready to go into the marketplace, on which the R&D has been completed and funds are not available to put the technology into the marketplace, I am concerned.

That is what we are all about, to create new jobs. It is fine to create new jobs through research and development, but the real thrust comes creating new jobs for small business and industry.

At the present time there is a tremendous effort underway in this country to make sure that innovation comes back to its rightful place. If innovation is going to be important, innovation is going to have to take place in the small companies that exist in this country.

Between 1979 and 1981 in business, both manufacturing and nonmanufacturing, employing more than 100 people, there was a net decrease of 22,928 employees, while in units employing less than 100 people there was a net increase of 23,776 employees.

I believe it is most significant to look at those figures. Not only has the employment been greater in small companies but the net increase has always been in the small companies, not with the Fortune 500.

I believe our future in this country depends upon small business. Not only has our future depended upon small business but our past has depended upon small business. As we go around and as we try to develop new products, processes, and businesses, as Ms. Webber alluded to, we run into one roadblock after another in small business: Lack of financial capital, and lack of resources for R&D.

I would urge this committee as it develops its ideas to think about how we might fund new products, new processes, and new ideas, and what our real thrust is going to be in the future. The technology we hear so much about is being developed by individuals for the most part, or is being developed in large companies and spun out by small individuals. But as we look around, that is where we really hit the rub, creating new technology, creating and building a business around it.

Thank you.

[Mr. Beasley's prepared statement follows:]

PREPARED STATEMENT OF E. BRUCE BEASLEY III, PRESIDENT, MIDDLE ATLANTIC TECHNOLOGY CENTER, INC.

Chairman Mitchell and distinguished guests—let me thank you for the opportunity you have extended me in allowing me to appear before you today.

The Middle Atlantic Technology Center has a cooperative agreement relationship with the U.S. Department of Commerce, Minority Business Development Agency. Our effort is to deliver technology commercialization services in the three States of North Carolina, Virginia, and South Carolina.

The National Technology Commercialization Program is administered by the Industry and Technology Division of the Minority Business Development Agency under Executive Order 11625 and is a part of the Minority Business Enterprise Program.

The Technology Commercialization Program provides a mechanism for the identification and assessment of technologies which enable minorities to participate in technology-based industries, and those with growth characteristics, by turning research and development into new competitive products and services.

Through a national network of 11 technology commercialization centers the program provides a coordinated process for matching information on available technologies with commercial potential, markets looking for new products, and sources of financing for new product development to be matched with qualified minority firms and entrepreneurs.

We review slightly more than 100 projects a year. Many of these projects never get beyond the evaluation stage because our Project Review Committee finds that they do not possess the potential to succeed in the marketplace. However, a significant number do have the opportunity to succeed if all requirements to make it happen, fall into place at the right moment. It takes from three to five years to get a project from the evaluation stage to a point of success in the marketplace in most instances.

There appears to be a parallel between a frustration we experience in technology commercialization and in a new effort of the Small Business Administration that is strikingly familiar. I refer to the Small Business Innovation Research program now being administered by SBA and the Product Development Funds in the technology commercialization program.

We have $50,000 for product development to award grants to clients who need assistance for prototypes, engineering drawings, finished designs, marketing studies, business plans and other specific needs. While this fund is limited and that, in itself, creates a serious problem, it is not the problem to which I want to refer. It is this. We help a client, and his product is ready for commercialization, and what happens then? All too often, he does not possess the resources to move into production and marketing.

Another piece of on-the-shelf technology has been developed offering no promise to the client, the economy, the country, or society.

This creates a number of frustrations, the principal one being for the client who has spent an important portion of his life bringing into being what he considers a viable technology important to the well being of the society. It brings a frustration to us who work in this effort trying to assist those who strive to turn their creations into marketable technology, and I am sure, it brings frustration to those members of the Congress who saw these needs and moved to meet some of them with legislation.

I can see these same frustrations occurring in SBA as it administers the Small Business Innovation Research effort. For example, a small business firm is successful in acquiring a grant from one of the Federal agencies. Its research and development efforts succeed in producing a viable technology. What happens then? How is this technology going to be produced and marketed? The SBIR grant was only for the research and development phase and does not provide resources for production and marketing. We have reached the end of the line again. An SBIR grant has been wasted unless some means are developed for the small business to move on to production. Unfortunately, in this instance, I can see SBIR grants producing more on-the-shelf technology.

There are avenues along which SBA and the Technology Commercialization Program of the Department of Commerce can work together to insure both production and marketing of high tech products and processes through tandem efforts made possible with the enactment of H.R. 2132.

In the instance of the Technology Commercialization Center and its client, when they finally reach the point in the process at which production is required, it is my opinion that the TCC can call on SBA for assistance for its client. It can be provided under H.R. 2132 or, at least, it should be provided.

In the instance of the SBIR grant, I believe the Technology Commercialization Program can be called on to assist the small business firm that has been through the effort of developing technology with resources from an SBIR grant; but does not possess the expertise to go into production and to market its newly developed technology. Already, the Technology Commercialization Program provides a mechanism for the identification and assessment of technologies which enable clients to participate in technology-based industries, and those with growth characteristics, by turning research and development into new competitive products and services. We certainly help by providing the insight necessary to move on at this point. I must stress that small business will require resources with which to move forward toward total and final commercialization.

Both inventors and small businesses that possess a bent for research and development quite often do not possess the talent or skills to be manufacturers or marketers. Unless these steps are provided, success is unattainable. There are also instances in which those who develop the ideas, products, or processes, whether they be individuals or small businesses, just do not have the capability to move on through the process. Our Center has developed a list of small business applicants that are seeking new technology to manufacture and market. To eliminate another loss, we can bring these components together for successful commercialization so that the technology is not lost to the shelf again, and we have created more jobs.

There is, at the present time, a tremendous and impressive human effort underway in this country to develop high technology that can transport our lives through the years of the future. It is important, I believe, that this technology does not die at the door of the laboratory, whether it be in the backyard shop of the inventor, or in the small business firm. It is more important that this technology be moved on to the production lines, creating new jobs.

The Department of Commerce, through its various agencies, the Minority Business Development Agency being one, is beginning to be adept as innovators. At the same time the Small Business Administration is becoming more experienced at financing innovation. It is significant, I believe, to point out that H.R. 2132 can be an instrument to permit these efforts to move ahead, jointly, as they are delivered in an attempt to create new jobs which are so urgently needed in this country.

We should be diligent in insuring that any person in this country be provided with the opportunity to see his creativity move to market for the benefit of society and himself. Such a journey is fraught with problems for those who do not possess the resources to make the entire trip. Not many individuals or small businesses possess the level of resources required to make that journey. I believe H.R. 2132 can help. Where are the new jobs being created today? Between 1979 and 1981 in business, both manufacturing and non-manufacturing, employing more than 100 people there was a net decrease of 22,928 employees, while in units employing less than 100 there was a net increase of 23,776 employees. This is most significant. Our future will depend upon the small and medium size businesses, and this is where we must begin to place our emphasis.

I want to commend the author of this legislation. It comes at a most significant time. I want to thank Congressman Mitchell for conducting these hearings. They are important. And, lastly, I want to thank you for allowing me to appear here this morning and to be afforded this opportunity to try to discuss how this legislation can be used to help some people do some very important things for society.

Mr. MITCHELL. Thank you. Thank you very much.

Ms. Webber, I just wanted to put one question or make one statement with regard to your testimony, namely that SBA has been working under a continuing resolution and had no budget.

Well, it is true; it has been working under a continuing resolution but I am also disturbed by the failure of the Small Business Administration to spend the money that we give it.

May I ask our counsel if he can remember some of the moneys that were not spent last year on direct loans, or guaranteed loans? Can you recall?

Mr. TRIMBOLI. In the direct loan area there was a surplus of $39 million which was not obligated. In the guaranteed loan program there was a surplus of $1.2 billion that was not obligated. In the 7(j) management assistance program there was an authorized program level of $10 million. Only $5.7 million was obligated by the end of the fiscal year. For business development expenses for 8(a) firms, there was a total of $20 million which was appropriated and only $6.2 million was obligated by the end of the fiscal year.

Mr. MITCHELL. So it really is not a matter of the Congress failing to provide the wherewithal to be of assistance; it is the failure of the agency.

I must say that during the first part of the Reagan administration when the new Administrator came to the Small Business Administration, I thought he was going to destroy it. He simply did not let any money out. He imposed all kinds of weird penalties and requirements, and added extreme the paperwork burdens.

I am hopeful that the new Administrator will proceed with spending the money that is authorized and appropriated by the Congress. This is one of the reasons for this piece of legislation. They argue that we can't run the agencies. Somebody has to do it if the agencies aren't going to run themselves.

I don't like to see the Congress invade the executive branch in terms of running an agency. But, when you get a history of this kind of failure to deliver it becomes incumbent upon us to do it.

I wanted the record to show that SBA has not used all of their authority. They could have used much more money, I am sure, but they didn't use the money that was available to them.

Mr. Beasley, I am in complete agreement with you that the very good bill that we got through on innovation and research will help tremendously.

I remember many times during my 12 years in Congress when a number of people have come in with good R&D proposals, but couldn't break through with a Federal agency. This new law now gives them the opportunity to do that.

I agree that once that phase is over you face the awesome task of how to put this is idea into production. The argument that is going to come up, indeed, is that if the Federal Government does this job will be giving an unfair advantage to some firms. How do you answer that?

Before you do, I can think of one way. Obviously we have invested some money in those firms in terms of R&D. It is certainly foolish to let that investment go down the drain without putting it into production. Are there any other arguments I could advance?

Mr. **Beasley**. Of course, SBIC increasing that allotment is one way to do that. That is one place to put it, but it is certainly something that needs to be looked at.

I don't know that I have those answers, I judge. I know that problem is going to exist and there is no question about that and, of course, there is talk of more money. The more money you put there, the more of a risk we stand of having.

Mr. **Mitchell**. On the shelf product. Would you sort of think it through and, if you come up with some ideas, would you share them with the committee?

I think your point is well taken. I honestly don't know the answer.

[The information referred to above follows:]

Middle Atlantic Technology Center,
Raleigh, N.C., April 13, 1983.

Hon. Parren J. Mitchell,
Chairman, Committee on Small Business,
Washington, D.C.

Dear Congressman Mitchell: I appreciate the opportunity that I was afforded to testify at the public hearing conducted by you here in Raleigh, Monday, April 11.

At that hearing, you asked, following my testimony, that I come up with some suggestions as to how to prevent new technology from going on the shelf following its development as it passed through our own Technology Commercialization Program or through the SBIR grant program.

My suggestions are these: 1. that some innovation incentive funds be made available through the Small Business Administration following a successful pass through our program when Product Development assistance is provided or through the SBIR grant program following successful development. Some type of point system could be established in both programs to identify those technology projects most worthy of moving on to production and marketing.

This supplementary funding could be in the form of SBA loans if such an innovation incentive funding was established in H.R. 2132, it would seem to me.

At any rate, it seems tragic to me that we would continue to permit new technology to go to the shelf after it had gone completely through the Technology Commercialization program of MBDA or through SBIR of SBA because the inventor did not possess adequate financial resources to move on to production and marketing.

If there is anything I can do to assist in the development of such funding source through H.R. 2132 or from any other direction, please let me help.

With best wishes, I am

Sincerely yours,

E. Bruce Beasley III, *President.*

Mr. **Mitchell**. Congressman Britt.

Mr. **Britt**. I don't have any questions. But not only is Ms. Webber's business located in my district, I think this committee should take note of the fact Ms. Webber was the Small Businessperson of the Year for North Carolina.

Congratulations.

Mr. **Mitchell**. Accept the congratulations from all of us. It must be pretty tough if you are able to overcome odds like that and still come out Small Businessperson for the Year.

Mr. **Chappie**. Two questions. How long do you feel that you will need 8(a) support to really become self-sufficient?

Ms. **Webber**. In my situation, like I said before, I am up against a giant really and I personally think it is going to take me at least another 3 years. I would love to come in and graduate myself out prior to the next 2 years, but I don't see that right now, and if we have a turn of events hopefully I can. I believe it is going to take 3 or 4 more years.

Mr. CHAPPIE. At this time what is your termination date?

Ms. WEBBER. I have 2 more years.

Mr. CHAPPIE. Tell me, in your view, what kind of additional assistance do you need from that program in order to achieve your business goals and get out from under the program?

Ms. WEBBER. The first thing, No. 1, I need operating capital right now very badly. That is the first thing I need. In addition to that, I think if I could get some good management assistance in that office right now, and I need it like 2 months ago, I put the request in and I think coupled with that along with building the private sector, getting more business from the private sector, I think that would do it for me.

Mr. CHAPPIE. Where did you lodge the request, going through channels at the local level?

Ms. WEBBER. Yes, sir.

Mr. CHAPPIE. You have indicated sometime past in your testimony that you have had excellent cooperation, at least here in the zone, region, or State level, but roadblocks seem to be back in plastic city.

Ms. WEBBER. Things seem to get hidden or shuffled away. I have had problems there.

Mr. CHAPPIE. Thank you very much.

Mr. MITCHELL. Have you had any success at all with the private sector?

Ms. WEBBER. I have had very good success with the private sector.

Mr. MITCHELL. Getting contracts?

Ms. WEBBER. Getting contracts with the private sector. I had the State of North Carolina contract. We lost it honestly and competitively. We have nice contracts throughout the country. Alcoa, and du Pont, and R.J. Reynolds. We have contracts all over.

Mr. MITCHELL. I am a little concerned. On the one hand you are doing well in terms of contracts in the private sector but you say you need management assistance. Some firms that I know, have good contracts going in the private sector. They say that is demonstrable evidence that they have good management. What is your shortfall or you problem in management?

Ms. WEBBER. Well, I have just had a little upheaval in my office and I really need someone to come in and more or less assess whether we are operating efficiently with the people we have in house or whether we need to cut out some of that.

Mr. MITCHELL. Personnel?

Ms. WEBBER. Yes, sir.

Mr. MITCHELL. Thank you. It is very encouraging to have a success story and please accept all of our congratulations for your recent recognition. We will wait to hear from you. Rack your brain and help us come up with some solutions.

Mr. BEASLEY. I will do that.

Mr. MITCHELL. We thank both of you.

Our next two witnesses are Ed Stewart and Bobby Lowery. Mr. Lowery is president of the Better Cleaning Maintenance Supply, Inc., and Mr. Stewart is executive director of UDI/CDC.

Thank you for being here. We have copies of your statements. The entire statement will be submitted for the record. It would be helpful instead of reading your entire statement if you would go through and select out the salient points you want to make.

PANEL CONSISTING OF BOBBY LOWERY AND ED STEWART

TESTIMONY OF BOBBY LOWERY, PRESIDENT, BETTER CLEANING MAINTENANCE SUPPLY, INC., CHARLOTTE, N.C.

Mr. LOWERY. Thank you, Mr. Chairman. On behalf of myself and other minority businesses in this area I consider it an honor to have been invited to address this committee on some of the issues or concerns that I have.

While I don't want to belittle the financial areas and other aspects of the bill that has been addressed, I would like to consider putting some emphasis on the Jobs Training Act or the training portion of the bill.

I am president of the Better Cleaning Janitor Service and Better Cleaning Maintenance Supply, providing janitorial services for major corporations, medical facilities, schools, and selling both janitorial products and equipment to major corporations as well as local businesses in Charlotte and in North Carolina.

As a service provider rather than a goods producer the idea of training in high tech jobs is elusive as it relates to this bill and I would like clarification as to specifics.

My concern is that many times when we are talking about high tech in North Carolina we are talking about the technology and computer industry, which is great. There are additional high tech, in my opinion, the category of training that could qualify for high tech.

In the janitorial business, which is many times taken as a dead end industry, in my opinion goes far removed from that.

The knowledge that is needed to be able to understand the mixture of chemicals, the makeup of the interior design, so you are using the right product on the right fabric, if you are working in a highly industrial computerized area, our employees must have some knowledge of their surroundings and how they might work best in those surroundings.

So when we are talking about high tech, specifically how this will address high tech is a concern.

On page 13 of H.R. 2132, sections 21 through 23 states that no more than three employees, or potential employees, of a concern can be the recipients of any benefit at any one time.

Mr. Chairman, this section is not clear. I support this section if you are saying that no more than three employees performing the same task can be subsidized. However, if you are saying in this section that no more than three employees in any three different areas of a concern can be subsidized, then I can take issue with the provisions of the bill.

I would suggest that an amendment be made in such a way to allow an employer to negotiate for a subsidy with the Government when he chooses to hire more than three employees under the bill in different areas of technology. The cost of labor does not allow minority and small businesses to become capital intense.

Most of the time we find ourselves not updating our equipment so much that we can maintain production but so we can maintain a viable work force.

My firm provides janitorial services for many of the major corporations. In my door to employment come those who are unskilled, who are unemployable, in many cases, and we do take the risk of hiring those individuals who are recipients of subsidized income and place them in the marketplace.

The major corporations find that that individual does make a viable employee. He either places him in the mailroom or he places him in some other type of job area whereas he becomes a viable employee of the major corporation.

Therefore we return back to the market, back to the job market, to bring in another applicant to move him through the system, and what we are doing is really training and being a training ground for major industry.

Last but not least, I think a continuing effort must be made to subsidize and promote upgrading and training for workers so that minority and small business can maintain a competitive posture. The initiative to grow, develop, and implement more effective and efficient service and goods should be an ongoing joint responsibility of Government, business, and industry. In closing, the idea of high tech jobs versus technical jobs is very confusing and a more explicit explanation and definition and interpretation needs to be included in the bill.

[Mr. Lowery's prepared statement follows:]

PREPARED STATEMENT OF BOBBY LOWERY, PRESIDENT, BETTER CLEANING MAINTENANCE SUPPLY, INC., CHARLOTTE, N.C.

Mr. Chairman, I am here today in support of this bill and to share with you some concerns I have in regards to certain sections of this bill, (House bill 2132) to amend the Small Business Act and for other purposes.

On behalf of myself and other minority businesses in the area, I consider it an honor to have been invited to address some of the issues and conerns at hand. Probably the most outstanding feature of this bill is the emphasis that has been placed on the training and upgrading of "high tech" jobs. As most of you know, minority and small businesses create most of the new jobs in the private sector on an annual basis. Unless new businesses are created and established firms expand/grow, the availability of jobs remain a premium. As a service provider rather than a goods producer, the idea of training for "high tech" jobs is illusive unless this bill is specifically suggesting that it will support new areas of growth and development for businesses. In order for us to become and/or remain competitive and profitable, monies must be available to promote capital investment and ownership development. Many of us cannot keep up with the technology of our trade/service because we are in a position to be "captial intense". Those of us in the "goods" producing area cannot become involved in international trade because we often do not have the assets necessary to insure a "letter a credit" and/or cannot produce at a volume level that would warrant a contract of that magnitude.

Page 13 of House bill 2132 section 21 through 23, states that no more than three employees or potential employees of a concern can be recipients of any benefits at any one time. Mr. Chairman, that section is not clear. I support this section if you are saying that no more than three employees performing the same task can be subsidized. However, if you are saying in this section that no more than three employees in three different areas of the concerns can be subsidized, then I take issue with that provision of the bill. If the latter is the correct interpretation, then I suggest that this section be amended in such a way as to allow the employer to negotiate for a subsidy when the employer chooses to hire more than three.

At this point several other concerns that I have regarding the role of minority and small business are:

(1) Minority and small business appear to serve as training ground for large corporations because by the time we get a worker job ready and trained they are recruited by corporations or businesses that can offer better salaries. Efforts should be made to assist us in keeping the persons we train through high subsidizes and business initiatives.

(2) The cost of labor does not allow minority and small businesses to become "capital intense". Most of the time we find ourselves not updating our equipment so that we can maintain a viable work force.

(3) The Government regulations regarding loan packaging needs to be reviewed on a timely basis and simplified to the extent that people desiring to go into business can understand what they need to do. On occasion the regulations have been so complicated that loan officers could subject themselves to error at the expense of persons seeking the loan. What I am saying here is that Government regulations (the way they are written) could be considered a deterrent to business development.

(4) Last, but not least, a continuous effort must be sustained to promote upgrading and training for workers so that minority and small business can maintain a competitive posture. Initiatives to grow, develop and implement more effective and efficient services and goods should be an ongoing and joint responsibility of Government, business, and industry.

In closing, the idea of high tech jobs versus technical jobs is very confusing and a more explicit explanation, definition and/or interpretation needs to be included in this bill.

I conclude my testimony at this time and I am available to answer any further questions.

Mr. MITCHELL. Thank you. I will attempt to answer your questions but I would like to hear from Mr. Stewart first.

Let me say this. The bill as it is presently drafted would not preclude using the training component for any one of your employees. We are not saying in this legislation that the training has to be just high tech.

I will try to explain it a little more after we hear from Mr. Stewart.

TESTIMONY OF ED STEWART, EXECUTIVE DIRECTOR, UDI/CDC, DURHAM, N.C.

Mr. STEWART. Thank you, Congressman.

To you, Hon. Parren Mitchell and other members of our committee, I also appreciate the opportunity to bring these brief remarks before you. I am glad to speak in support of H.R. 2132 and I will be even more appreciative of these remarks. I will try to skip over and also will talk about perhaps in my own mind about the use of Federal funds. I hope that some of these will serve in a way to support the passing of your particular bill.

When I talk about these successes and the use of these funds I don't say that these funds are adequate. I am saying there are certain dollars available that help us get a job done.

I represent UDI Community Development Corp. in Durham, N.C., and we exist principally for the purpose of creating and maintaining an economic partnership with the city, with the public and private sector. We try very hard to become an integral part of the community and we try to make a contributing part by job creating activities and participation in all those issues vital to the growth of our environment.

In 1974 we became involved in a major project. We recognized that economics is the major approach that we should take to address the problems of our community. So we decided to embark on the development of an industrial park, the only such project I believe that has been conducted by minorities I know of in North

Carolina, and perhaps in the entire southern area. The industrial park is designed to attract manufacturers that do not or cannot locate in the Research Triangle part. For those of you that might not be familiar, to make this remark significant, I should tell you that the Research Triangle Park represents about 5,000 acres of research property that is promoted by the State of North Carolina to encourage major industries to locate their research operation in that particular park.

Now, I think it has 40-some tenants and about 20,000 people employed there. Manufacturers who cannot locate in the park, because they do not have the sophistication, we are suggesting to them that we have a sight for you, if you want to supply parts, product parts to those industries inside the park, those research industries inside the Research Triangle Park, we have a site that is 3 minutes away where you can locate, and it is a very, very attractive part of our marketing strategy.

Right now, to suggest, to let you know the importance of this area, last year during the economic decline, 5,000 jobs were created because of the Research Triangle Park. Now, with this having the possibility of having a major impact in Durham, by the possible creation of aid to 800 to 1,000 jobs over a 5-year development period, we recognized we could not do this without some up front startup capital.

We had none. The community could give us none. Our only source was the Federal Government and foundations. Now, it has been stated over the years, over the last few years, that the foundation would take up the slack created by the phasing out of certain Federal programs.

Well, I have with me about 10 of about 18 letters of refusal from the foundations. All of these letters came over the last 10 days. They have refused support in one way or the other.

I say this to simply remind the committee that in no way will the Federal funds that have been phased out, in no way will they be replaced by foundations, and I have proof of that in my bag.

I am in a designated impact area where in one census tract there is as much as 29 percent unemployment. As we know, unemployment breeds all kinds of problems, and we are victims directly or indirectly, whether we suffer as a person, as a family, as a community, or as a nation. So we cannot dare be skimpy in our efforts to create training and jobs.

What we did in regard to the fact that we had no funds to get this particular project started was to go to the three Federal funding sources: The Community Services Administration, the Economic Development Administration, and the Small Business Administration. CSA funds were used to acquire the property, to help acquire the property.

All these funds are mixed with some private resources. EDA funds were used to extend sewerlines and part of the waterlines or part of the improvement of the industrial park. Now, the ripple effect, the spinoff effect was to also create a helpful environment throughout the entire community. The entire southern section of Durham has benefited because of the involvement of these particular funds.

In other words, it permitted the construction of some middle-income rental apartments, it permitted the improvement of a water system for the local county school, by enabling them to hook on. All of these things would have been cost prohibitive if a private developer had to extend those sewerlines. HSBA played a major part for us in an injection molding company that we operate, that we have a minority interest in.

Debt financing from the SBA and other private commercial sources gave the plant "operation time" to develop a growth trend leading to the employment of 30 persons and gross sales last year of over $1 million. The plant provides parts for such major companies as IBM, Ford Motor Co., Western Electric, the Pontiac Division of General Motors, et cetera.

I might add that the involvement of over $2 million of Federal funds in the second year of development has already brought a yield of $2,833,000. It is projected that the 5-year yield will be $10 million to $12 million with a value of land and building to be estimated at $24,500,000.

I encourage you to understand the desperate need to push for this bill and also your support for sufficient funds to allow EDA to continue its very useful and noncontroversial role as a source of economic support for various needed projects in the community.

I say this because I understand that there might be the intent to phase out EDA.

I also strongly suggest, of course, that some of the redtape be taken out of the releasing of those funds once proposals have been submitted. Too often the conditions that funds are designed to correct deteriorate tremendously because the length of the time that is taken to receive these funds and the small businessman operates on a very close margin and it is critical that he obtains his financial support on a timely basis.

I strongly suggest that the Federal Government examine the needs of the small businessman and use a sensitive understanding that these total needs will hardly be met without adequate Federal intervention. The possible alternatives are too limited in their resources and too demanding in their requirements. I understand that the jobs bill has not given direction to several federally funded programs to give them direction in regard to the role they are supposed to play. I understand through meetings with people in the last few days that this problem does exist and they suggested I might pass it on to you.

In closing, I appreciate the chance again to come before you and make these remarks. May God bless you in your particular efforts.

Mr. MITCHELL. Thank you very much, Mr. Stewart.

[Mr. Stewart's prepared statement follows:]

PREPARED STATEMENT OF ED STEWART, EXECUTIVE DIRECTOR, UDI/CDC, DURHAM, N.C.

Members of the Small Business Committee, I appreciate the opportunity to bring these brief remarks before you. I am glad to speak in support of H.R. 2132. I will be even more appreciative if these remarks will serve to enhance your chances of implementing a bill that better addresses the very serious problems of inadequate capital financing for small business. I am glad to see an effort is being made to put sufficient funds into SBA to make a more viable program.

I represent UDI Community Development Corporation in Durham, North Carolina. We exist for the primary purpose of creating and maintaining an economic partnership role involving the public and private sector.

We know that the economic conditions of a community will be influenced by th amount of Federal intervention. I refer to capital support for educational institutions, major corporations, and municipalities. These are "accepted situations," and they have productive roles to play in our communities. Because they are "accepted situations," we eagerly accept the fact that millions of Federal dollars will be made available to them. Please understand, I do not criticize this at all.

My concern is, do we respond to the needs of the Small Businessmen with the same enthusiasm? He is an integral part of that community and can be a major factor in the "health" of that community, as much if not more than any other supporting element.

I read recently "The Approach to Strengthening Communities is Based on Two Ideas." The first is economic development; the second in community control of that development.[1] This can be accomplished through Small Business Operations that involve itself in satisfying the needs of a community by the services it provides, the jobs it creates, and the participation in those affairs that are vital to the growth of its environment.

UDI identifies very well with the role described above. Having experienced certain activities that established the fact that the approach to economic decisions can not be controlled by socially oriented issues, although it is important we devise means to respond to both areas.

This realization was made in 1974 when emphasis by the Board of Directors of UDI made a decision to focus on economic activities. The project—an Industrial Park. The site is located just 3 minutes from the nationally known Research Triangle Park. It is designed to attract those manufacturers that do not want to locate in the Research Triangle Park or do not meet certain requirements to do so, but can provide support products for those operations within the Research Triangle Park.

Although the project was designed to create 800-1,000 jobs over a 5-year development period, there were no available funds on a local basis without up-front start-up capital. The only funding sources were the Federal Government and foundations.

It has been stated over and over that the foundations would take up the slack created by the phasing out of certain Federal programs. Well, I just happen to have 5 of over 15 letters of refusal, we have received (these five came this week) over 18 months. All but one flatly refusing the request for funds for one reason or another and the other one not overly encouraging.

I am in a designa[illegible]act area, where the unemployment rate in some census tracts are as much [illegible] percent. Unemployment breeds problems of health, mental, criminal, [illegible]ll aware of the cost to respond to these problems. We know that we, o[illegible]e victims, directly or indirectly, of the acts created when jobs are n[illegible]vail[illegible] suffer as a person, as a family, as a community, as a nation.

Can we dare to be "[illegible]r efforts to create training and jobs?

We are pleased, the [illegible]n, North Carolina is pleased, that the following Federal agencies res[illegible]r projects: Community Services Administration, Small Business Adm[illegible]n, and Economic Development Administration. Funds from CSA enabled UDI to acquire land for the Industrial Park. Funds from EDA provided ma[illegible] improvement costs that allowed the site to become a marketable commodity; EDA funds were used to extend sewer lines and water lines as a part of infrastructure improvements of the UDI Industrial Park. This also created a healthful environment and permitted other development activities. Those activities included additional construction of homes and apartments and an improved water system for a local school in the area. Such developments would have been cost prohibitive for a private developer. This is a vital point to be made in support of Federal intervention and economic development within a given community. EDA financial involvement positively affected an entire community that has suffered a slack in economic growth in previous years.

SBA has been a major factor in the "turn around" operation of an Injection Molding Company that needed time to adjust its management and marketing program. Debt financing from the SBA and other private commercial sources gave the plant "operation time" to develop a growth trend leading to the employment of 30 persons and gross sales last year of over one million dollars. The plant provides parts of such major companies as IBM, Ford Motor Company, Western Electric, Pontiac Division of General Motors, etc.

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[1] Barbara Brown & Margaret J. Stone, "Community Development Block Grants: A Strategy for Neighborhood Groups," National Economic Development & Law Center, California, November, 1978.

The molding of human character is evident among the employees who have obtained jobs through the infusion of these dollars. It is evident by the positive role that they have played in their various communities. A recent article, in the daily paper in Durham, cited the fact that 31 million people lived in poverty in 1981; the highest level in 15 years. Let us be very careful that this number is not surpassed in 1983-84.

As a result of the financial support from these agencies, UDI is able to leverage available funds to acquire financing from private commercial institutions leading to the acquisition of land permitting the expansion of a 26-acre Industrial Park to a 91-acre Industrial/Business Park. The funds were principally used for the infrastructure development Again, I repeat this involved the extension of water and sewer lines which improved the livability of an entire community. It permitted construction in the area which would have been cost prohibitive otherwise.

The yield in the second year of the 5 year project on the 2 million dollar investments has already reached $2,838,000. The projected cash to be generated when the Park is complete is 10-12 million dollars with a value on land and building estimated as $24,500,000 (See table below).

I encourage you to understand the desperate need to push for this bill and also your support for sufficient funds to allow EDA to continue its very useful and noncontroversial role as a source of economic support for various needed projects in our communities.

As programs are improved, let's think also about easing the red-tape that is so common with certain funding Federal sources. So often the conditions the funds are designed to correct deteriorate tremendously because of the length of time taken to receive the funds. The small businessman operates on a very close margin and it is critical that he obtains financial support on a timely basis.

I strongly suggest that the Federal government examine the needs of the small businessman and use a sensitive understanding that these total needs will hardly be met without adequate Federal intervention. The possible alternatives are too limited in their resources and too demanding in their requirements. Incidentially, it seems to be some concern among certain Federal agencies regarding the lack of direction that exists in regards to the role they are to play in the implementation of the new jobs bill.

In closing, I appreciate the chance to come before you to make these remarks, and may God bless your efforts.

Industrial park project

Present acreage—91:	
Current investment—purchase—CSA	$100,000
Improvements—CSA and EDA I	900,000
Studies—UDI, State and EDA II and III	142,000
EDA and UDI expansion	1,500,000
Development status—groundbroken in 1979:	
First structure completed and occupied—1980	700,000
Land	66,000
Employment—50-60:	
Second structure completed—1982	500,000
Land	30,000
Employment—50:	
Current value—buildings	1,200,000
Land (91 acres x 18,000)	1,638,000
Land under UDI control (73 acres)	1,314,000
Industrial Park value after completion:	
On 72 acres—25 manufacturing facilities—500,000	12,500,000
On 15 acres—20 office buildings—average 2,000 square feet at 30.00/foot	12,000,000

Job creation—800 to 1,000.

RTI study estimates for 24 acres—467 jobs: Yearly income for 1979, $3,600,000.

For complete build-out of the park, a conservative estimate of annual income is $10,000,000 to $12,000,000.

Mr. MITCHELL. The UDI Community Development Corp. is a nonprofit operation?

Mr. STEWART. A nonprofit community-based operation.

Mr. MITCHELL. The businesses that are brought in are to make a profit?

Mr. STEWART. Yes, sir.

Mr. MITCHELL. Into your industrial park?

Mr. STEWART. Yes, sir.

Mr. MITCHELL. How long have you been in operation?

Mr. STEWART. This section of the program, since 1975. UDI became an entity in 1974.

Mr. MITCHELL. How many businesses are now located in your park?

Mr. STEWART. We broke ground for this park in 1978. It took a year to finish the first phase of the infrastructure development. Before the year was out, we had a firm out of Poughkeepsie, N.Y. located in a $700,000 building. Currently we have two operations. Northern Telecom is in the park, and a firm that manufactures a specialized plastic piping. We have a third firm scheduled to move from Charlotte sometime within the next 60 days.

Mr. MITCHELL. What is your goal? How many jobs are you shooting for in that industrial park?

Mr. STEWART. 800 through 1,000.

Mr. MITCHELL. Over what timeframe?

Mr. STEWART. A 5-year project.

Mr. MITCHELL. You are now defunded?

Mr. STEWART. No, we have currently some funds from the Economic Development Administration. We are seeking funds from the Division of Health and Human Services, discretionary funds.

Mr. MITCHELL. Mr. Lowery, you raised several questions. The legislation that we are looking at today does indeed limit the training funds to not more than three employees per business at any one given time. A part of the rationale for doing that was that we did not want any one large small business to gobble up all the training money.

You talked about a kind of rotation that occurs in your business, where you said you trained 10 employees and they moved on. As I understand the legislation, the job training funds for 3 of those 10, as they move out, could be reapplied for. The secret of it is that only three at any one time can be financed.

I agree with you, far too many people suffer under the illusion that a janitorial worker has a strong back and a weak mind. That is totally incorrect. I have just been amazed at the technical requirements that are now needed to run a real good janitorial service. I am afraid I would not be a good employee. I didn't do too well in chemistry in high school and college. I am glad you brought the point up that the janitorial service is no longer a minor kind of operation in our economy, requiring no skills. In my opinion you would be entitled to the benefits of the job training program, if we can get this bill enacted into law.

Congressman Britt.

Mr. BRITT. Thank you. No questions.

Mr. MITCHELL. Mr. Chappie.

Mr. CHAPPIE. I have one for each of the witnesses.

First, Mr. Lowery. Many of the programs, as you well know, undergo and suffer criticism. In your particular business, are the basic requirements there as to the kind of training that is required of the people that come through your program?

Mr. LOWERY. I beg your pardon?

Mr. CHAPPIE. As an employer, under this program, are there any specific guidelines that are set down in terms of the type of training that you provide these folks?

Mr. LOWERY. Well, the technical training, I guess what I was alluding to initially, we employ persons again who are unskilled or who are recipients of welfare programs, dropouts, those individuals who would not walk in the door of corporate America, walk in our door and do not understand why we cannot provide them jobs because they do have what some people might call a strong back and a weak mind. As a result, we take these individuals in and we begin to work first with work ethics and work attitudes, get them coming to work on a regular basis, and we provide them with a broom, tray, or a caddy of equipment to clean with, and seeing them going down the hall neatly dressed at work on time they decide that is an employee I would like to have and he has had an opportunity to observe him at his facility, he only received basic training as it relates to work ethics and attitude.

At this point usually we lose him before we have an opportunity to move him to a kind of high tech, the other kinds of training, but the main thing first of all is that he has got to learn what the chemicals are and how to use those chemicals, acids, neutral cleaners, what they are, how to use them, and where to use them. In most of corporate America's boardrooms they have spent millions of dollars providing the interior design. If our employees are not familiar with how to clean those facilities, using the proper cleaning products, then they can very quickly ruin and not preserve that investment. So, the initial cleaning is learning the makeup of chemicals and how to properly use those chemicals.

Mr. CHAPPIE. Do you feel that there should be any governmental role to assure that a business such as yours uses the training grant funds specifically for training purposes, or do you feel that you as the entrepreneur are qualified to assume that responsibility?

Mr. LOWERY. Yes, I do feel that I can and we do have, only from an unsubsidized basis.

Mr. CHAPPIE. Thank you. I have one question, Mr. Stewart. Mr. Stewart, having been a small businessman all my life, I kind of cotton to your comments about easing the redtape with regard to Federal sources. One, can you cite specific examples? Two, could you suggest areas where we could ease the road for you folks?

Mr. STEWART. I am not sure.

Mr. CHAPPIE. I am sorry I asked.

Mr. STEWART. I am not sure I can. I suggest one thing brought up by Mrs. Webber, that the ones who are making decisions about those papers would move them off their desk. I understand so often papers just sit on a particular person's desk maybe an undue length of time.

Mr. CHAPPIE. There are times, I have suggested, that you might agree we have retraining programs for paper shufflers.

Thank you.

Mr. STEWART. Thank you.

Mr. MITCHELL. Thank you, gentlemen. These hearings are beneficial because certainly your concerns about the training program have prompted us to find one flaw.

Mr. TRIMBOLI. Mr. Lowery, in the bill, on page 14, lines 20 through 25, the bill specifies the types of training that will be financed. There is a mistake in the print, on line 23. After "professional skills" should be inserted the word "or". GPO made a mistake.

Mr. MITCHELL. So that the training financed will impart or upgrade, one, technical skills, two, professional skills, or, three, skills relating to the formulation of new technologies in their application. That should help you out a little bit.

Mr. LOWERY. Yes, thank you.

Mr. MITCHELL. Thank you very much for your testimony.

We will resume at 1:40. We are going to end the hearing at 4 o'clock. There are Members who have to make airplane flights and so forth. So, we will resume the hearing promptly at 1:40 p.m.

Thank you very much for being with us this morning.

[Whereupon a luncheon recess was taken, with the subcommittee to reconvene at 1:40 p.m.]

AFTERNOON SESSION

Mr. MITCHELL. I think it safe now to resume.

I have 1:40, and, as chairman, my watch is always correct.

Our next witnesses are Chuck Byrd, president of NCAMB; Will Horne, president, American Contract Packagers, Inc.; and Matthew Bacoate, president, Bacoate Disposables, Inc.

If those three persons are present, will you come to the witnesses stand please.

Mr. Horne, why don't you start as our leadoff witness. Thank you and the other witnesses for being here to testify. I have a copy of your testimony, and your very attractive brochure, which is exceedingly well done.

Mr. HORNE. Thank you very much.

Mr. MITCHELL. For the benefit of all the witnesses, we have copies of your testimony, the entire testimony will be made a part of the record, so that you are absolutely free to simply go through and highlight the major points that you want to make. Thank you, sir.

PANEL CONSISTING OF WILL HORNE; MATTHEW BACOATE; AND CHUCK BYRD

TESTIMONY OF WILL HORNE, PRESIDENT, AMERICAN CONTRACT PACKAGERS, INC., WILLIAMSTON, N.C.

Mr. HORNE. Thank you very much, Mr. Chairman. On behalf of my American Contract Packagers and other members of the American Contract Packagers, associated business friends, I want to thank you for this opportunity to come before the committee, to give our comments.

American Contract Packagers is a pharmaceutical manufacturer approved by the Food and Drug Administration to manufacture drug products of various kinds. We believe the firm is the first and only black-owned drug manufacturing firm in the country today. The company has a plant facility located in Williamston, N.C., one of the most modern pharmaceutical manufacturing firms in the country, and in October 1979, we incorporated, and our objective was to go to the private sector to secure pharmaceutical contract packaging business.

Primarily based on my reading of Public Law 95-507, and firmly believing that the private sector would respond, we spent many efforts trying to secure subcontract work from major pharmaceutical companies, and we have not been that successful in doing that.

Once we realized the difficulty and timing in securing that business, we then moved on to the second phase of our business plan, which was to develop our generic drug products and go to the Federal Government market, and later on go to the private market.

In the process of doing that, we did get some assistance from Bruce Beasley's group, in securing some research funds to get started on some testing for products.

We requested 8(a) certification in June 1980. We received 8(a) certification in February 1981. Unlike Ms. Webber, our experience with the Small Business Administration is the performance has been very poor. We tried on a number of occasions to try to explain to them the nature of our business. We recognized in the drug business there were many areas that they may not understand, and we took the time, we drove to Charlotte, we talked to Atlanta, we have been to Washington, we talked to various Congressmen and Senators, trying to help get an opportunity to have the SBA fully understand and take the proper interest in our business. We recognized certain disadvantages. One disadvantage was locating in Williamston, N.C., in eastern North Carolina, in the South. Very few analytical testing laboratories in the environment to assist us, whether we paid for them or not. They were not there, and on a number of occasions, 8 times to be exact, we requested assistance from the Small Business Administration for financial assistance. Eight times we were turned down.

Two times we requested business development expense support in relation to two drugs, one drug contract and one packaging opportunity we recently had with the Department of Agriculture; both times we were turned down by the SBA.

We have had a miserable experience in the 8(a) program and I think that is putting it very gently. We have had no support whatsoever. We have never received 1 penny of assistance from the Small Business Administration. We believed at the time we got into the 8(a) program that at least the Federal Government agencies would respond to the law. We have not had that happen to us. As a result, you see on the first page of the testimony it outlines in a short way our experience with the 8(a) program and our efforts in business. Nevertheless, we are positive about the potential since the President has come out and he has stated his support for minority business and the development of additional minority businesses, but we are a little discouraged when we go to the SBA and find that the policies that forbid, not forbid but policies that prevent them from implementing the desires of the President as well as the desires I believe of Public Law 95-507.

Recently we had a contract with the Department of Agriculture. We spent many, many days and weeks pursuing and getting the cooperation from the Agriculture Department to secure a packaging of salad oil. We secured this contract. The contract was about $4,450,000 and we believed that at that time because of the long developmental period we had this was an opportunity for our business to really liquidate the debts that we had and to get moving forward, and on two occasions the Small Business Administration had done some surveying to determine whether in fact we did need more contracts and yes in fact we did need some financial assistance and the opportunity presented itself recently, within the last 2 months, and once again the Small Business Administration refused any business development expense assistance, and as stated in the testimony, one of the other problems that we had in trying to get financing to move our business forward was to request advanced payments. We initially asked the Small Business Administration for advanced payments. They said they could not do it unless we asked the Department of Agriculture. So, we asked the Department of Agriculture, and they said it is the SBA's job. We went back to the SBA; they said no, it is Agriculture's job.

It may sound unbelievable, but this actually happened. Finally, we got a ruling, a decision from the Department of Agriculture, that they would not provide us advanced payments, and that they terminated the contract based upon financial and technical reasons. During this period of time, we talked to the regional administrator, we talked to individuals in the district office, we talked to people in Washington, D.C., we met with them several times, we solicited assistance from Congressmen, from Senators, on our behalf, and we still came up with nothing.

When I got the request to come before the committee, I have to admit I was a little reluctant because I was exhausted from talking and not getting any results. We have made tremendous efforts to work within the system. We have gone out privately. We had invested close to $3 million in this plant. Of these dollars $500,000 were cash dollars raised by my brother from private small people, I would say with small amounts of money, tremendous amount of efforts. We have had people working in the plant as long as 1 year without pay because we were determined to make the thing work. We have had private business people help us, but when we turned to the Federal Government through the SBA, we have gotten absolutely no assistance.

We listened to the President make a statement about the administration's interest in getting minorities in highly technical areas. Here is an area, here is a company. We represent a company that can manufacture and is approved by the Food and Drug Administration to manufacture drug products. That is a highly technical area. The Defense Department and the VA market is well over $400 million alone, not to mention the private contract packaging market which is close to $1½ billion. We are the only minority business, black-owned business, pharmaceutical manufacturing business in the country, in this area, and it really bothers me that repeatedly we have to listen to governmental officials in high office make statements—that I honestly do believe they believe, but the implementation, as it comes through the agencies, it does not seem to get through.

In our particular case, it has not happened, and I submit that we need to understand better why is it that the Small Business Administration has not responded and why is it that there seems to be no enforcement of the law, I mean the Public Law 95-507, as it relates to our type of business whether it be business development expense fund, advanced payments, contract procurement. It has been a very, very bad experience for us in the 8(a) program. I do believe that we have given many times thoughts to whether or not it was a disadvantageous thing to be in 8(a) rather than advantageous, and today we are prepared to take business steps to assure our success, but it does not include the 8(a) program, because through the SBA, we have had one miserable time after another, delays, we developed an antacid product, which we secured a contract with the Veterans' Administration, at a very critical time in the development of our business we requested some business development expense funds for equipment for the analytical laboratory testing, and we outlined the reason that we needed that small amount of equipment, because in the drug business, you have to have an analytical laboratory. The SBA in Atlanta made a decision not only to turn it down but to have that contract turned back to the VA, after all our focus and all the money we spent developing our product, they turned the contract back to the VA and asked the VA to take that item off the list. This was incredible. So what we did, we talked, we went to Congressmen, went to Senators, we have just gone to everybody, we even went to the White House, we met in the White House with White House officials and we got nothing from there either.

So, we have had 2 years of a miserable experience in 8(a), and we often wonder who does run the SBA. I don't know who has the authority to make a decision on behalf of the SBA, whereby it takes into consideration that they approved the firm, that was a disadvantaged firm and that firm had to first validate that it had limited access to capital, they were supposed to somehow the next day come up and have capital. I don't understand it. My question is, what can the Small Business Committee do to help us?

Mr. MITCHELL. I would be less than honest if I said this is not the first such story I have heard. Obviously, almost all of the firms that I know that are now making it pretty well got started with 8(a). What I would like to do is put the staff to work on a complete followthrough on your case. I just think we ought to do that. You filed for bankruptcy?

Mr. HORNE. We filed, yes, bankruptcy, under chapter 11 under the Federal Bankruptcy Act. The reason we did that, we had an opportunity, up until that point, because we had this agricultural contract; it was sizable enough; it would have employed roughly 100 people. It would have generated the cash flow, a 7(j) firm, I would say came in, and validated our position and made the proper recommendation to the SBA, which they turned down, once again, even their recommendation.

Mr. MITCHELL. What reasons did they give for these consistent turndowns?

Mr. HORNE. Well, you know I honestly don't know.

Mr. MITCHELL. They never gave you a reason?

Mr. HORNE. There were no valid reasons during this last discussion with the SBA except that the financial position of our company was such that they couldn't help us. Well, we secured a contract with enough margin in the contract to turn our company around, as I was going to say, we waited until that point to see the SBA would make after 2 years a decision that I felt was very simple, but they decided that they would do nothing to assist us. At that point we decided to file chapter 11.

Mr. MITCHELL. So you can reorganize?

Mr. HORNE. That plus the fact that we had debt pressing us, we had security, well, on an annualized basis it would have been about $9 million in contracts. Now, if it were the intent of the SBA to assist the firm, who had exerted a tremendous amount of private effort to help, which survived during these past 2 years all kinds of problems, to come up with a contract, to turn the company around and the SBA stands back, I think, thought they were the agency that was supposed to help. We developed a fear of any paperwork going to the SBA because nothing had come out positive for us. I assumed there were similar things positive for firms. We decided at that point what we needed to do what at least would hold off our creditors and then submit for further review, somehow. We had gone to everybody.

Mr. MITCHELL. Congressman Britt, Congressman Chappie, would you agree to take a good hard look at this case with me?

Mr. CHAPPIE. Yes.

Mr. BRITT. Yes.

Mr. MITCHELL. On the surface it sounds absolutely appalling. It doesn't make any sense. What is particularly insulting and angering to me is that you got on your own a contract with VA and the SBA told them to take it back?

Mr. HORNE. Yes, sir.

Mr. MITCHELL. That is the exact opposite of what their mandate is as an agency of the Government.

Mr. HORNE. We have a number of documents in our files, in our communications, trip reports, to various officials in the SBA, and because we had heard of these successes these other firms were having, we did not believe and the biggest problem we had during this time that they turned the contracts back was the shock. We didn't prepare for the agency set up to help us, we believed, to hurt us. In other words, if they were not going to help, for God's sake, don't do anything to surprise us and hurt us. That is what we had happen. It took money to develop those products. They never have shown documentarywise any concept of understanding of the drug business, but more than that, it seemed to have been punitive efforts to make sure that we didn't succeed.

We have documents from the SBA which document that the regional administrator has some serious problems in understanding the business and the market and we have some questions about his intent, where our business is concerned, whether to succeed or not to succeed, and we have documents to support, we have communications from Congressman Jones, to that office, to that regional office, to the district office, a series of documentation. We have documents from Senators East and Helms, trying to get those two

SBA offices to assist us. None of those things have been successful. It has been blatant. We have wondered who does it take to get SBA to do something positive on our behalf. It was not because we were a firm waiting for the Government to help us or give us a handout. On the contrary, the plant was built on a friendship, a business joint friendship by a builder who believed that we could make it, and there was a tremendous opportunity. The dollars that were put in by private individuals, the plant was one of the most modern plants in the country. We had accomplished so many things privately on our own, we didn't even go to the Federal Government program in the beginning, we went to the private sector. It was the difficulty we had getting through the private sector that forced us to look to the Federal Government. We did just the opposite of what many firms might have done. Nevertheless, it seemed to irk individuals in the SBA that we would do such a thing. We organized our management team, a highly technical staff, I mean these individuals many of them were making $40,000 a year, working for major companies before they came to our company. They were determined; we managed to keep those people simply through what we called leadership. The people believed in our dream and to live their dream within our dream and we have had people working for a year with no pay, and I am one of them.

Mr. MITCHELL. Could we get a staff investigation, the first phase of it, completed in 30 days on this case?

Mr. TRIMBOLI. Yes.

Mr. MITCHELL. Thirty days for the staff to do its investigation and report to Congressman Chappie, Congressman Britt, and myself. Once we get that then we will be back in contact with you. I must say that I feel terrible. I am one of those who stands up and fights for the funding of SBA and all these programs and then to hear this kind of account is very depressing.

Mr. CHAPPIE. Mr. Horne, I note that in your written testimony, on page 2, your comments relate to Robert Morris Associates, and deal at some length on the negative effect that they have had as it related to your problem. I don't know them from a bale of hay. Can you tell me what role they play in this process?

Mr. HORNE. I didn't understand.

Mr. CHAPPIE. Robert Morris.

Mr. HORNE. Well, in the past, one of the written answers we received from the Small Business Administration, when we requested a financial guarantee, on a loan, at the time we had secured a contract, was that our projections were unrealistic and the basis of that was that our projections did not meet industry averages or it was not in unison with Robert Morris Associates average of industries of our type, and you are asking me what is Robert Morris Associates?

Mr. CHAPPIE. Yes.

Mr. HORNE. Well, you want to know, to be honest, I am not exactly sure, but it is a business guideline of statistical data about industry, various industries and how they perform and profits and costs and so forth, in relationship to ratio of profit-to-sales and so forth, and, what we maintained was that our business as a black-owned pharmaceutical manufacturing and also a pharmaceutical contract packager, that the combination of service business and the drug manufacturing firm with a market of well over $400 million in generic Government market alone, not to mention the efforts we made in the private sector, that the profits would be substantial. We have validated that.

As a matter of fact, there were two 7(j) reports rendered to the SBA. One was rendered back in March of 1981 by Mr. John Sly, and he has credentials, I am sure that matched what the SBA wanted. His analysis was the same as mine, that we had a tremendous opportunity to accomplish our objectives and that these data were realistic.

Recently, we had a 7(j) report after 2 years of struggling and not being able to utilize more than 2 or 3 percent of our plant capacity, but I think Conrad Huey, of Charlotte, also recognized a potential and recommended the fact that we could in fact be successful provided that the SBA assisted us. Both reports were rejected by the Charlotte and Atlanta offices.

Mr. MITCHELL. They just used the Robert Morris guidelines?

Mr. HORNE. Well, I am not sure what they used. My real concern is that until today we are not bitter, we are just disappointed. The thing that hurt us more than anything else was the believing that somehow we would get some assistance from the SBA. Had we known there was no assistance coming, we would not have been in a position that we are in, and I can firmly say I don't think this company would have ended up filing chapter 11. What hurt us was the expectations, the time, and money put in both those contracts or suits which took dollars to develop a drug product and meet all those tests, and they don't seem to understand that, and we told them about the delays for 60 days. If you operated in a plant with a staff at a cost of $1,200 a day or $1,600 a day, and they take an extra 30 days to do nothing with it, and then tell you no, it costs you a lot of money, and they don't take any responsibility whatsoever for it. That is fine; we asked that someone in SBA tell us that you don't intend to help us, then we won't be asking, we won't waste the time. But the way we were set up, we believed in the system, we believed in Public Law 95-507, and we lived by it, but in our experience the SBA was not living by it. They did absolutely nothing in any given area that you can pick. If you do investigate you will find they did absolutely nothing to assist us. On the contrary, each one of those situations with those contracts, they did something to kill us. The final one was $4.5 million, a contract that Agriculture fought and tried to get SBA to participate to help, because they wanted to help, and the Atlanta office said we can't do anything to help.

We have gone to various Congressmen and Senators and we have written letters to the President. Nothing has happened, nothing. I was a little reluctant when I got the letter to come here, except my belief and knowledge of the chairman, his history in the Congress, that made me come.

Mr. MITCHELL. I am glad that you did. That is why we come out to the field, not the only reason, but certainly when the system dysfunctions to the point that it inhibits minority businesses from moving ahead, then it is our job to correct that dysfunction, plain and simple.

Mr. HORNE. I hope I answered the question. I am sorry that I dwelled so long. We have lived through a lot and that is why I was a little reluctant.

Mr. BRITT. Where do you stand now? Obviously you are in chapter 11. Are you able to continue? Where do you stand? What are you going to do down the road for the next 2 or 3 months?

Mr. HORNE. Well, to be very candid, we own two companies. One company is Horne Pharmaceutical, Inc., and American Contract Packagers. Horne Pharmaceutical is the corporation under which all the products were developed and we are committed to market contract packaging to use the label code. We activated that corporation and we do have contracts and we have broken the private sector, so to speak, and the future is not as bad as maybe documents indicate. However, there are small business people out there who invested in our company, American Contract Packagers, creditors. We owe debts of roughly $1.7 million. We would like to, because the business is there, to pay those people, to earn the dollars to pay those people, and we have the capability of doing it.

We have a plant facility that could manufacture from a straight liquid filling packaging operation well over $50 million. We have a plant, and we are utilizing at the present time less than 7 percent of that plant, and hopefully during the next 2 months, with the recent contracts we have gotten, we will do more. But in answer to your question, we have taken steps on our own to make certain that the objective of the business that we had in the beginning, whether it be through ACP or Horne Pharmaceutical, is met, and we have a group of people that are 20 strong, that are talented, that believe in what we are doing, that are willing to pay whatever price is necessary to make sure we are successful.

We have decided, however, that we don't want any part of the 8(a) program if it is administered the way SBA had administered it for the last 2 years, and we have taken steps, by coming here, to ask for some help, and some guidance. How can we make American contract packagers succeed as it should have without the deception that we realized from the Small Business Administration? I regret that very much, it took us a long time to really start to say the Small Business Administration is trying to hurt us, and except that our files are so full and so thick with truths, documents, and evidence of that, I would not make that statement today.

Mr. BRITT. Thank you.

Mr. MITCHELL. Thank you. I really appreciate your coming, despite your doubts. You have got to be there. For as long as the whole story doesn't get out, the agencies just keep on doing what they want to do when they want to do it and how they want to do it. I would never have known about your story except that you would come here and tell it. Give us 30 days. I can't promise you heaven, you have been through hell, so I can't promise the other extreme, but I will let you know that in 30 days we will be back with at least our preliminary investigation completed.

Mr. HORNE. Thank you.

[Mr. Horne's prepared statement follows:]

PREPARED STATEMENT OF WILL HORNE, PRESIDENT, AMERICAN CONTRACT PACKAGERS, INC., WILLIAMSTON, N.C.

I. BACKGROUND

On February 10, 1981, the Small Business Administration approved American Contract Packagers, Inc., a pharmaceutical manufacturer and contract packager, for participation in the 8(a) program. The agency also approved ACP's business plan. Prior to SBA's approval, the agency determined that I, Wilbert Horne, was socially and economically disadvantaged.

Socially disadvantaged individuals are "those individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identification as a member of certain groups, without regard to their individual qualities". Economically disadvantaged individuals are "those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities, as compared to others in the same business areas who are not socially disadvantaged".

During the past two years American Contract Packagers requested financial assistance from the Small Business Administration eight times. Eight times the agency refused assistance. Two of the eight requests were Business Development Expense requests directly related to contracts secured by ACP after much hard work. As a result of SBA's denial of assistance, ACP's lost both contracts totalling $5,000,000.

From February 10, 1981, until today (April 11, 1983), the Small Business Administration has not provided American Contract Packagers, Inc. with one penny of direct assistance.

On March 28, 1983, American Contract Packagers, Inc. filed Chapter 11 under the Federal Bankruptcy Act.

The past history and indeed the future of ACP is significantly embedded in our free enterprise system and the intent of PL 95-507. More importantly, our history and future is embedded in the will, desire and capability of our federal systems to treat all of its members fairly and equitably under the law. It is our belief that the American way is rooted in the principles of justice. We not only bet our lives and our future on this statement, we humbly submit for objective review certain facts and circumstances, as experienced, as a basis for redress if appropriate or other actions as indicated. Finally, if it is the objective of the federal government to right some past wrongs and move to assure justice for all Americans, then clearly the implementation policies of the Small Business Administration governing the legally mandated minority and disadvantaged business program must be changed.

II. RECURRING AND CRITICAL ISSUES

This section on recurring issues is addressed here to preclude duplication in the remainder of this document; further, these issues are highlighted, because of the critical importance of these issues as we experienced them. Basically, the issues concern how the SBA and allied agencies make their decision to help or not help an approved 8(a) firm and actions of federal agencies to implement PL 95-507.

A. Use of Robert Morris Associates statistics

The derivation and technical merit of these statistics are not called into question. What is questioned is, when and how these statistics are used by the SBA. To further place in perspective, our experience was as follows:

(1) Approval of our firm for the 8(a) program without the SBA either not understanding the market or not reading and understanding our business plan.

(2) Upon a request for contract and loan guarantee assistance, the critical decision point within the SBA appeared to be the financial/loan office who without knowledge of the market or business plan rendered an adverse decision based upon contracts not being available, thereby creating an issue of repayability; and based upon ratio analysis compared to Robert Morris Associates statistics.

Questions:

(a) As a disadvantaged firm, should our ratios have to meet Robert Morris Associates published ratios even though no other black-owned firm exists in the market niche we seek to enter?

(b) Does misapplication of Robert Morris statistics as stated above coincide with deeply held preconceived opinions of the decision maker(s) with respect to the disadvantaged firm?

(c) Just how pertinent are the Robert Morris statistics in this particular case or a first in a market niche case?

(d) Should not the affected firm be given a chance to discuss/defend against the use of these statistics at this critical point?

Our experience with the SBA and MBDA reflects widespread use of Robert Morris statistics as a critical reference of decision-making even though the users of these statistics need not know anything about the market potential or the relevance of these statistics to the particular case in question.

B. Organizational disconnects

The services we have sought from the SBA, the MBDA and the various federal procurement agencies involve a perennial catch-22. That is within the SBA and Minority Business Development Agency, there are autonomous business support activities and financial support activities; and within procuring activities, there are autonomous requirement activities and contracting activities. We have no qualms with these organizational alignments except that as they operate, they simply are not responsive enough to a disadvantaged firm; thereby, further exacerbating its problems. Clearly, time is money and the delays caused by duplicate submission of data are not only unnecessary and costly but destructive.

C. Section 211—Activities of Public Law 95-507

Our firm has sought the assistance of the MBDA, the SBA, the Defense Contract Administration Services Regions (DCASR) and the assistance of the Small and Disadvantaged Business Utilization Offices of the various procuring agencies. Further, our files are heavy with correspondence and trip reports directly with the majority suppliers reflecting our efforts seeking a chance to compete. While we will not quit, we do conclude that there is no governmental structure to implement this section of the law. Further, we conclude that the government by its actions, and primarily the SBA on-site plan approval representative, condones and sanctions discrimination against disadvantaged businesses of the rankest form. This critical approval/disapproval point must function if there is to be implementation hope for this section of the law.

III. SPECIFIC 8(A) EXPERIENCES

A. Approval and getting started

Having received SBA certification as an 8(a) firm in February 1981, ACP requested immediate contract support involving a specific list of products which were included as a part of the approved business plan. Further, the business plan projected the required level of support of 2 million dollars. While awaiting for action from the SBA, ACP was the successful low bidder on a DLA cough syrup contract valued at $327,000. With this pending DLA contract, ACP sought SBA financial loan guarantee. Not only was this request denied, but ACP found itself caught between the FDA, SBA and DPSC. The issues were certificate of competency and FDA regulatory approval. The catch-22 became, you can't get the contract until you obtain FDA approval; you can't get help with the FDA approval until you get the contract. The net result of these actions during the period April 1981 until July 1981 was two SBA turn-downs for financial assistance; no SBA help in obtaining the contract and ultimately a lost contract opportunity at a very critical time.

It was obvious that ACP would have to go it alone until it could receive commitment to a contract and secure FDA approvals prior to any SBA assistance. In August 1981, ACP received commitment to contracts totalling 1.3 million dollars from DLA-DPSC for seven products. In order to obtain FDA approval of products, ACP requested and received $10,000 testing grant support through the Middle Atlantic Technology Center, U.S. Department of Commerce. While awaiting FDA approval of our two cough syrup products, ACP started production and began commercial sales in November 1981. This was made possible as a result of having raised $313,000 of equity capital and through a private business loan of $150,000. FDA approval of our cough syrup products was granted in February 1982. With these approvals, Defense Logistics Agency—Defense Personnel Support Center offered a contract for these products valued at $574,000. At this critical juncture, the SBA took from February to the end of April 1982 deciding if it would award a subcontract to ACP. With the subcontract finally awarded, ACP obtained progress payments in May 1982 and began production in June 1982.

This initial contract experience evidenced the lack of SBA support and understanding throughout ACP's history in the 8(a) program. That is, in the drug industry you must have qualified technical staff and facilities that meet or surpass regulatory requirements. Certainly, there are costs associated with these requirements.

To date, ACP has marketed itself and has had seven 8(a) contracts offered to the SBA on its behalf. In fact, all contracts received have resulted from ACP's actions.

B. Contract negotiators

In each case of a contract/SBA subcontract, the procedures call for the SBA contract negotiator to enter the proceeding. Our experiences in this process have not been favorable based upon the amount of energy and effort invested. The contract negotiator may not know anything about the product and manufacturing process. To adequately prepare this position to be effective and responsive involves issues of attitude and respect for one another's role and knowledge. The onus, however, remains on the 8(a) firm to skillfully maneuver through this hurdle regardless of factors or the 8(a) firm could well face the loss of the contract which has on two occasions been ACP's fate. Even with repeating contract and when the cost data have not materially changed, it is still necessary to submit completed package data to the negotiator. This practice is wasteful and costly.

From our experience, we conclude that although the negotiator's position is designed to be helpful, in point of fact this position adds 30 days to a lengthy process all to the detriment of an 8(a) firm. If fixed expenses are $500/day, a delay of this nature translates into a $15,000 cost. No 8(a) firm can afford this kind of help.

C. Business development expense

American Contract Packagers sought BDE for capital equipment which was consistent with approved uses as the program is currently implemented.

The contract negotiator, the Business Development Specialist and even the Regional Administrator are involved in BDE approvals. The basic issues raised in B above are compounded and result in an even more pronounced pressure on the 8(a) firm. The time and energy our firm spend in answering some of the same questions again and again resulted in a feeling that BDE is impossible. Clearly, if the firm's financial situation were solid, BDE wouldn't be needed, but could be approved. The net result of our requests were delays. That is, we tried to explain manufacturing equipment and processes for nil; tried to clearly establish price/volume relationships of the components; and tried to show and explain in the case of a Veterans' Administration solicitation for antacid why we could not be both competitive and disadvantaged the first time with a new product in volume production.

Despite the time and energy spent, SBA returned the contract to the procuring activity and requested its removal from the 8(a) program. This action again reflects a lack of understanding of the basic issues involved and/or it is consistent with a preconceived opinion that the firm can't and won't make it. In either case, we are dealing with judgments by the system instead of factual results of a modicum of assistance.

D. Advance payments—Subcontract No. 4-83-1-0045

The authorization of advance payments by law to aid contract performance is a powerful tool. As the federal system now attempts to implement the law, this tool is non-existent. American Contract Packagers was successful in obtaining the identified subcontract with the Department of Agriculture as the procuring agency. Our experience with this subcontract which involved tremendous energy over a period of more than four months, is clearly and adequately documented by file correspondence. After obtaining the contract and attempting to get commercial financing to no avail, ACP requested advance payments of Agriculture. Agriculture determined that any advance payment and required BDE was to be provided by the SBA. A request to the SBA resulted in a referral back to Agriculture and the statement that BDE could not be provided because it wasn't negotiated with the contract. A written request to Agriculture resulted in a denial due to the lack of technical and financial ability. This documentation and our experience pose several questions:

(1) Why after more than ten years of the 8(a) program is necessary to research whether advance payments are legally authorized?

(2) Why is it necessary to go round and round with the question of BDE before the contract, with the contract or before the contract begins?

(3) Why is it necessary for the system to wonder procedurally if technical and/or supportive financial assistance can be provided?

(4) Why does the federal delivery system for a federal program not work, but yet the expectation of the system is that an 8(a) firm can make it work commercially on its own?

(5) Could it be that none of the agencies involved have no intentions of seeking the program work?

(6) Could it be that the program and indeed the implementation of the law represent a hoax?

(7) Could it be that members within the federal system are so convinced about an 8(a) firm not having a chance to compete that no one ever really voices specific issues or concerns that forces the 8(a) firm to forever guess and ask . . . why?

(8) Why is it that the real decision makers never visit with the 8(a) firm to see facilities, people, internal controls, processes and whatever else is required in order to act responsively and helpfully?

(9) Why couldn't such a committee on-site visit be conducted within a system of priorities?

(10) Why???

IV. SECTION 211, PUBLIC LAW 95-507

The pharmaceutical contract packaging market exceeds 600 million dollars. As the only Black-owned firm in this market, our experience typifies why the law, 95-507, is needed. The real tragedy is that this portion of the law has no meaning commercially. This is because the law has no meaning to those within the federal system charged with enforcement.

American Contract Packagers tried direct marketing to the top 50 major pharmaceutical manufacturers. Concurrently, we marketed directly with top 50 of the major retail outlets who also make considerable use of contract packagers. We have visited with and have had several firms to visit with us for quality assurance clearance and sales opportunities. We sought the assistance of the SBA, MBDA, and personnel of defense contract compliance section of DCASR. Our files are complete with these efforts. To date, after more than two and one half years, two firms have decided to give ACP a chance to compete.

From our experience, we found plans approved by the government with goals of zero for disadvantaged businesses. Again we raise questions:

(1) What is the role of the SBA with respect to subcontracting opportunities?

(2) What is the specific role and authority of the SBA on-site representative at the various procurement agencies?

(3) Why is it that the Small and Disadvantaged Business Utilization office personnel are totally disconnected with respect to this section of the law?

(4) Why is it that there is confusion and no single office or person responsible for critical decisions with respect to this section?

(5) Why is it that the 8(a) firm must derive the specific contract number and alleged violations and give this information to the government when the federal system won't provide the information or makes it extremely difficult for those outside the federal system to obtain the required or requested information?

(6) Why???

V. SUMMARY/CONCLUSION

Public Law 95-507 exists to assure a fair and equitable opportunity for socially and economically disadvantaged individuals to share in the free enterprise system as every other American. The Small Business Administration failed miserably in carrying out the law in our case.

TESTIMONY OF MATTHEW BACOATE, PRESIDENT, BACOATE DISPOSABLES, INC.

Mr. BACOATE. Thank you, Mr. Chairman.

I certainly appreciate the opportunity to come before you today to just briefly testify to the problems that I have had in becoming 8(a) certified. You might note in my written testimony that I have given you some background information on the present status of the company. Also, chronological steps that have been taken in order to become 8(a) certified.

You will note from the initial date of the 8(a) application, which was back on Nov. 12, 1980. It was in July of 1981, before we received any response, even though there were correspondence between me and SBA officials as well as telephone calls, along with our initial application I attempted——

Mr. MITCHELL. Let me interrupt a minute. February 9, 1983, you called. Have you ever been certified?

Mr. BACOATE. No, sir. Not with this company. I was certified. I was manager of a company way back in 1969 that was 8(a) certified.

Mr. MITCHELL. No; I am talking about just your initial application. Your initial efforts which began in November 1980?

Mr. BACOATE. No, sir.

Mr. MITCHELL. In 3 years, or 2½ years later still nothing has happened?

Mr. BACOATE. No, sir.

Mr. MITCHELL. You have neither been rejected nor accepted?

Mr. BACOATE. Neither rejected nor accepted.

Mr. MITCHELL. Go ahead, I am sorry.

Mr. BACOATE. Along with that package you will find official documentation from the representative from the 11th Congressional District wherein he has corresponded with SBA officials as well as myself.

One of the things that came back to us, in this long process of trying to become 8(a) certified, was the fact that the SBA officials could not find procurement enough to meet our business plan. Since they weren't able to do so, I went ahead and found it for them and submitted this information to the SBA as well as our Congressman, Bill Hendon, and you might note in one of the letters that is accompanying this testimony, that the SBA official said that I knew more about the SBA than he did.

Well, that made me feel extremely bad and despondent because any time that they are being paid and as a matter of fact, if you note that came from the Assistant Director of the SBA, and also from an assistant to him, that this correspondence came in.

Then I started thinking a little bit, because it has taken so long, sometimes maybe you know a little bit too much about what goes on there and that may play some tricks with you as becoming 8(a) certified. By that I mean that I worked extremely hard with the SBA, dating back to 1968, and had an opportunity to view the SBA files. That was during the time when it was stated that blacks were not able to run a business and be successful.

I was connected with the SBA officials and also made presentations to staff members, had opportunity to talk with some 40 or so in Washington, spent better than 3 weeks in Washington working with them, also working with the initial officials brought in by the administration to set up the Office of Minority Business Enterprise.

I started this company in 1979 and started a private sector business and had built that business up to a high $322,000 in gross sales with 34 employees. I was aware that because of the economic outlook that the private sector business might get a little soft, so, therefore, I had better shoot for the 8(a) program. That is when I started in 1980, thinking that would be sort of timely, might come aboard on a timely basis.

This did not happen. We went down to 14 employees. We presently are employing 17. We are in position today to go up to 21 because of some private sector business we have got. What we have been simply seeking is assistance from the SBA, by becoming certified, in order to develop sort of a sound basis for the company. We have already demonstrated that we are in a position to deal with the private sector on a competitive basis.

One other thing I would like to point out: to my knowledge, there is only one or two black companies that produce disposable protective clothing in the country. One of them is certified. As a matter of fact, I worked with that company in 1976 to help it get started, went back in 1978 at the request of the financeers of it, which was SBA and the Chicago Community Venture Development Co., to do an evaluation for them. It is 8(a) certified.

We have developed a credible list of customers, such as Procter & Gamble, Johnson & Johnson, and Kimberly-Clarke. I worked for Johnson & Johnson, over 9½ years. Kimberly-Clarke, approximately 5 years. Procter & Gamble, about 1½ years and currently working for them.

Then there is another long list of credible companies that I worked for.

The company that we have is FDA approved. Many of the products we make are termed medical devices, which means you are subject to an FDA audit at any time. We have been audited twice. Not one time have we received more than two very minor demerits, and that was we were short of a live bait rat trap. That was one of them. Another one we had a hole in the shipping receiving door about the size of a dime, so that was covered. That means this also was in the package that went to the SBA, so there wasn't any problems about us producing for the Veterans' Administration. This documentation would be borne out. They would not have any problem with us producing for them.

If there was any problem with the Department of Defense, and GSA which we have identified as an agency that purchases, and I have on my desk now in the neighborhood of $100 million per year in disposable protective clothing. The Veterans' Administration in Hines, Ill., procures approximately the same amount. The National Institutes of Health has a large dollar figure—I don't have that presently with me, but I do have that information to submit to the committee at a later time, if you so desire.

I have made several recommendations, several suggestions. Not only am I going through this dilemma, there are others that are going through it. As a member of the North Carolina Economic Board of Development, I have had an opportunity to talk with many people in North Carolina who have sought SBA certification. They have run into similar problems that I have run into. So, as a result of learning of others' plight and dilemma, I have noted, I think on about page 8 or 9, a number of suggestions for improving the system which, more timely, addresses itself to the applications that are being submitted for certification.

Congressman, I have a lot more. However, due to the fact that we have limited time, there are others to testify, you have my written testimony, I so submit, and am prepared to answer any questions

[Mr. Bacoate's exhibits and presentation follow:]

EXHIBITS AND PRESENTATION OF MATTHEW BACOATE, PRESIDENT, BACOATE DISPOSABLES, INC., ASHEVILLE, N.C.

Subject: Small Business Administration 8(a) Set-aside Program.

Reason: A Minority Business Experience when Attempting to Become 8(a) Certified.

Type of business: Manufacturer of disposable, protective clothing.

Type of equipment: Complete Cut & Sew—cutting tables, knives, and sewing machines. Condition of equipment is good.

Plant: Two-story, brick building—rail siding and elevator; 12,800 square feet of space.

Year began: August 1, 1979, incorporated in the State of North Carolina.

No. of Employees: High, 34; Low, 14; Present, 17.

Ownership: Minority (Black) 98 Percent.

Markets to Date: Private sector, medical oriented facilities, food processors, and heavy & light industries.

Gov't. Agencies Purchasing Protective Clothing: General Services Administration (GSA), Veterans' Administration, Dept. of Defense, Nat'l. Institutes of Health, and the Environmental Protection Agency.

No. of Minority Companies Manufacturing Disposable Protective Clothing in U.S.A.: Two (2)—Locations are Asheville, NC and Chicago, IL.

CHRONOLOGY OF ACTIONS TO GAIN "8(A)" DESIGNATION

(By M. Bacoate Disposables, Inc.)

Date and Action:

November 12, 1980—SBA provided instructions for applying for 8(a) program.

December 1980—M. Bacoate Disposables, Inc., submitted application.

December 23, 1980—M. Bacoate Disposables, Inc., letter to Asst. Director (District), SBA, Charlotte.

January 13, 1981—SBA Charlotte acknowledged receipt; forwarded to Atlanta.

April 1981—Follow-up call requesting status; told 60-90 days.

June 5, 1981—Contacted Rep. Hendon.

June 12, 1981—Rep. Hendon's response; will look into matter.

July 8, 1981—SBA response to M. Bacoate Disposables, Inc.

July 10, 1981—SBA response to Rep. Hendon.

July 30, 1981—M. Bacoate Disposables, Inc., letter to Rep. Hendon.

August 10, 1981—Rep. Hendon's letter to M. Bacoate Disposables, Inc.

November 28, 1982—M. Bacoate Disposables, Inc., resubmitted application for 8(a) program.

February 9, 1983—Called SBA Charlotte Office asking status of resubmitted Capability Review Application; also to inform the Charlotte Office that M. Bacoate Disposables, Inc., was planning to seek additional Congressional assistance, namely Senators Jesse Helms and John East. The response was to wait about two (2) weeks. On March 8, 1983, the attached Exhibit #3 was received.

BUSINESS BACKGROUND

The author of this presentation lists experiences:

1956—Honorable Discharge from the Military, five (5) years.

1959—Assistant Manager, Star Lane Bowling Center prior to assisting in integrating the facility.

1962—Opened a bowling center (Biltmore Lanes) and managed for a group of doctors.

1967—Simultaneously was employed at the Asheville Area, Chamber of Commerce.

1969—Raised 51 percent of seed capital to start a manufacturing company (Afram Inc.) using SBA 502 Program. General Manager of same; product, disposable protective clothing. Afram Inc., was certified and performed 11 contracts.

1969—Worked with the U.S. Department of Commerce, SBA, in establishing the Office of Minority Business Enterprise (OMBE), Washington, DC.

1970—SBA produced training film at Afram Inc., using Matthew Bacoate, Jr., to tell their story.

1973—Started new company, Asheville Community Enterprise, Inc., June 23. Product, disposable protective clothing. Asheville Community Enterprise, Inc., was sold July 1979. Stockholders received 110 percent return on their investment.

1976—Assisted TLC Incorporated of Chicago, Illinois in starting their company.

1978—Visited TLC at the request of the Chicago Community Ventures, Inc., Mr. Benjamin Dust[illegible] President, to evaluate the TLC president and operations.

1979—Asheville Community Enterprise, Inc., purchased by Matthew Bacoate, Jr.

1979-80—Served on the U.S. Small Business Advisory Council, Region IV, Charlotte Advisory Council; appointed by A. Vernon Weaver, Administrator.

CUSTOMERS VIA CREDIBILITY

(Based on quality, service, and prices)

Kimberly-Clark Corporation—1969-71.
Kimberly-Clark Corporation—1973-75.
Johnson & Johnson—1972-79.
Abbott Laboratories—1977-Present.
Burroughs Wellcome Company—1978-Present.
Procter & Gamble—1982-Present.
Northrop Services—1978-Present.

The aforementioned customers demonstrate that M. Bacoate Disposables, Inc., can perform for the varied governmental agencies without quality and/or service problems. Very rigid standards are set by each company listed; they will accept nothing but the best in product quality and specification conformity. All are selling to the U.S. Government.

These factors were noted in M. Bacoate Disposables, Inc.'s initial application where such background information was requested. In addition, when advised by the SBA Minority Coordinator that procurements were not available to meet M. Bacoate Disposables, Inc.'s business plan, a subsequent letter was forwarded to his attention identifying the agencies who purchase disposable, protective clothing and the types of product that each agency purchased.

EXPLANATION AND RECOMMENDATIONS

When M. Bacoate Disposables, Inc., submitted its initial application for 8(a) certification, the company was breaking even; employing 27 and sales were $281,000.00 annually (all private sector business). The president was foresighted enough to recognize that the 8(a) program could project M. Bacoate Disposables, Inc., into a position of solid operations within a four-year period. However, because of the procrastination in the last two phases of determining eligibility (Atlanta and Washington) since, the national economic conditions have caused the company's operating position to deteriorate somewhat.

The S.B.A. 8(a) Program was designed to assist those minority/women small businesses who demonstrate the ability to compete in the market place (private sector) after a predetermined period in the program. The applicant must be socially disadvantaged and at least 51 percent owned, managed, and controlled by the socially disadvantaged.

In addition, I submit the following:

The information required in the initial application includes authenticated documentation of the small business ownership and where (State) incorporated or whether it is sole proprietorship, etc. Capability Review is almost a duplicate of the initial application.

Upon submission of the initial application, staff members should proceed expeditiously locating requirements, especially wherein agencies are aware of procurements. Or, establish a special group within the frame work of the S.B.A. whose prime purpose is to develop and maintain an up-to-date log of departments and their requirements. Since each department is required to maintain a budget based on product needs for each fiscal year, the amount to be spun off for set-asides can be determined at the time of budget establishment.

A timely injection of business via the 8(a) Set-a-Side Program could make the difference in the success of a capable minority small business and failure.

Payment advances and the outcome of the advance can be determined by the financial statements and projected income resulting from the cash position of the business and profit forecast. Most businesses factor in apprentice cost for a period of not less than 120 days; also, the cost of additional tooling if the need is anticipated.

The S.B.A. did send their representative into central locations within a state once to twice per month to take application for loans and to counsel small business persons. Today, that practice is still carried out when working with local lending institutions on loan guarantees.

Such could apply to the S.B.A.'s Set-a-Side Program. An on-the-spot representative could eliminate much of the "up-the-line" procrastination that takes place at the Regional and Central levels, thereby, affording timely determination when approving or disapproving an application. This would allow the applicant company an opportunity to correct and/or seek another business format.

There are certain persons (lawyers) who specialize in securing 8(a) certification for small minority/women businesses. The format used by the source is a lobbying type; the results are usually very good. However, their fees are for some businesses prohibitive; five hundred dollars ($500.00) up front and one hundred dollars ($100.00) per hour thereafter which could cost from fourteen hundred dollars ($1,400.00) to several thousand.

Certain businesses receive preferential treatment depending on geographical location, principals, party affiliation, and S.B.A. investment in businesses.

1968–70.—The author of this testimony has had the opportunity to meet with the Director, Deputy Director, and Staff of the S.B.A. in Washington, D.C. He also had the opportunity to review a number of 8(a) supported businesses profile, those which had failed. The expressed feeling of many S.B.A. officials at the time was that Blacks could not operate a successful business. Doctors, school teachers were brought in early in the game to to operate businesses supported by the S.B.A.; all failed.

At the time, S.B.A. was financing 100 percent of ventures. This was changed in 1967–70 to require prospective entrepreneurs to put up 10–15 percent of the project cost. The rule of thumb during that era was that an 8(a) business should only stay in the program three (3) years.

The author feels that his presentation in Washington, DC at the S.B.A. office influenced the officials to adopt a five (5)-year minimum participation period for 8(a) approved businesses, which was much more realistic than the three (3)-year period supported by officials from the Department of Commerce and S.B.A.

U.S. SMALL BUSINESS ADMINISTRATION,
Charlotte, N.C., November 12, 1980.

M. Bacote Disposables, Inc.,
Asheville, N.C.

GENTLEMEN: We appreciate your interest in the Small Business Administration 8(a) Program and hope to be of assistance to you. We have enclosed 8(a) materials for your information.

(1) SBA Form 413.
(2) SBA Form 641.
(3) SBA Form 912.
(4) SBA Form 1010A.
(5) SBA Form 1010B.
(6) SBA Form 1010F.
(7) SBA Form 1017.

Before any firm is considered for 8(a) participation, an eligibility determination must be made. The major considerations are as follows:

(1) The applicant must be socially disadvantaged. Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identification as a member of a group without regard to their individual qualities.

(2) Applicants who are socially disadvantaged must be evaluated to determine whether they are economically disadvantaged.

(3) The company must be at least 51 percent owned, daily managed and controlled by one or more socially and economically disadvantaged individuals.

(4) It must be determined that SBA or other identified sources can provide to the respective 8(a) company the necessary procurement, management, financial and technical assistance. Therefore complete the enclosed Form 1017.

(5) It must be determined that the applicant company can perform the procurement contracts, and that with the assistance provided as specified in Paragraph 4 above, has reasonable prospects for success in competing in the private sector.

(6) It must be determined that the applicant company is a small business concern within the applicable SBA regulations.

After determining your eligibility, you will be contacted regarding completing the final application and a decision will be made by our Central Office regarding your admission to the 8(a) Program.

Please review the enclosed materials and, if you should have any questions, feel free to contact this office at any time; telephone 704/371-6576.

Sincerely,

CATHERINE SZUCS,
Assistant District Director for
Minority Small Business and Capital Ownership Development.

Enclosures.

U.S. Small Business Administration,
230 South Tryon Street,
Charlotte, N.C., January 13, 1981.

Mr. Matthew Bacoate, Jr.,
M. Bacoate Disposables, Inc.,
Asheville, N.C.

Dear Mr. Bacoate: We are in receipt of Form 1017, "Capability Review and Requirements Request," submitted by you. We have forwarded this statement to our Atlantic Regional Office in order to determine whether adequate contracts are available to support your firm. Subsequent to receiving a response from our Atlantic Office, we will notify you regarding the results. Please allow approximately five weeks in receiving a response from us regarding contract support.

Sincerely,

Catherine Szucs,
Assistant District Director for
Minority Small Business and Capital Ownership Development.

House of Representatives,
Washington, D.C., June 12, 1981.

Mr. Matthew Bacoate, Jr.,
President, M. Bacoate Disposables, Inc.,
Asheville, N.C.

Dear Matt: Thank you for your letter of June 5 regarding your application which is pending with the Small Business Administration.

I can well understand your concern about the length of time involved on this matter and please know that I am more than glad to lend all possible assistance to you. I have today contacted the appropriate officials at the Small Business Administration and have asked that expeditious and favorable consideration be given to your application.

Please be assured that I am pleased to have the opportunity to be of help to you. When I have a response to my recommendations on your behalf, I will be back in touch with you.

Sincerely,

Bill Hendon,
Member of Congress from Western North Carolina.

Small Business Administration,
Washington, D.C., September 10, 1981.

Hon. Bill Hendon,
House of Representatives,
Washington, D.C.

Dear Congressman Hendon: Thank you for your letter of August 10, 1981, on behalf of your constituent, Mr. Matthew Bacoate, Jr., President of M. Bacoate Disposables, Inc., Asheville, North Carolina, concerning his 8(a) program application.

Our decision, communicated in our July 8, 1981, letter to Mr. Bacoate, was based on the fact that we already have one firm in the 8(a) portfolio in the Atlantic region which manufactures disposable garments, and we are not having much success in providing adequate contract support to meet that firm's developmental needs. For us to admit another firm which requires a similar type of contract support would be contrary to programmatic rules and requirements, would be a grave disservice to the 8(a) firm already handicapped by insufficient levels of contract support, and would be detrimental to the developmental goals of Mr. Bacoate's firm itself.

Mr. Bacoate's letter indicates that some $25 million of Federal procurements are expected annually for disposable garments. Unfortunately, those figures, if they are correct, do not help to establish the availability of contract support to justify bringing his firm into the 8(a) program. As a general rule, the program receives only a small percentage of total procurements of any kind. As indicated above, what little becomes available for the program is needed for firms already depending upon our assistance for their survival.

I suggest that Mr. Bacoate keep in touch with our district office in case any changes develop in the level of available contract support.

We appreciate your interest in this matter and your support of the 8(a) program.

Sincerely,

CARL ELLISON,
ROBERT L. WRIGHT, Jr.,
Associate Administrator for Minority Small Business.

HOUSE OF REPRESENTATIVES,
Washington, D.C., September 17, 1981.

MATTHEW BACOATE, Jr.,
President, Bacoate Disposable's Inc.,
Asheville, N.C.

DEAR MATT: The Small Business Administration has provided me with the attached report regarding my further strong recommendations on your behalf.

It is sent along to you for your information and use. I sincerely regret the word is not more favorable, but I trust you will find this information about the previous decision helpful and I hope you will continue to keep closely in touch with the local SBA office for any possible changes in the contract support availability.

Please know that I am glad to be of service to you and I hope you will let me know whenever I can be of future assistance.

Sincerely,

BILL HENDON,
Member of Congress From Western North Carolina.

Attachment.

U.S. SMALL BUSINESS ADMINISTRATION,
Charlotte, N.C., November 24, 1982.

Mr. MATTHEW BACOATE, Jr.,
M. Bacoate Disposables, Inc.,
Asheville, N.C.

DEAR MR. BACOATE: Enclosed is a Capability Review and Requirements Request form for you to complete and return to us. The completion of this form is the initial stage in the 8(a) certification process, and will enable us to determine if contract support is available to meet the needs of your firm.

Sincerely,

ROSE MARIE COTTON,
Business Development Specialist.

Enclosure.

U.S. SMALL BUSINESS ADMINISTRATION,
Charlotte, N.C., March 3, 1983.

Mr. MATTHEW BACOATE, Jr.,
M. Bacoate Disposables, Inc.,
Asheville, N.C.

DEAR MR. BACOATE: We have been informed by our Central Office that contract support is available to meet your firm's capabilities. Therefore, we are enclosing SBA Forms 1010A, 1010B, 1167A, 641, 413 and 912, and a Business Plan for Manufacturer Businesses. The completion of these forms is the second phase of the 8(a) certification process, and will enable us to make an individual and business eligibility determination.

If your firm is incorporated, in addition to the information requested by the enclosed forms, we also require a Certificate of Good Standing. This document can be obtained from the office of the Secretary of State.

Sincerely,

ROSE MARIE COTTON,
Business Development Specialist.

Mr. MITCHELL. I have always taken the position with SBA, that it at least give the person an answer. I don't expect the agency to certify everybody, but I just get angry when they play around and don't say yes or no.

If SBA says no, then you can make out a case, maybe, to rebut why they say no. If they say yes, you have clear sailing. If you are left with neither yes or no, it is manifestly unfair.

Mr. Wright's letter to Congressman Hendon that is dated September 10, 1981, reads in part:

> Our decision, communicated in our July 8, 1981 letter to Mr. Bacoate was based on the fact that we have already had one firm in the 8(a) portfolio in the Atlanta region which manufacturers disposable garments, and we are not having much success in providing adequate contract support to meet that firm's development need.

But, you talk about $100 million through VA?

Mr. Bacoate. Yes, sir.

Mr. Mitchell. Another $100 million through whom?

Mr. Bacoate. Department of Defense in Philadelphia.

Mr. Mitchell. They assume simply because you were approved in Atlanta you can't do business in Philadelphia?

Mr. Bacoate. That is another company that he is alluding to and I have tried to find that company. I have not been able to.

Mr. Mitchell. Even if it exists, my point is that there is no magical thing that says you can only get contracts within this region, is there? There is no justification for that. It is stupid.

Mr. Britt. So, again, my question to you is where do you stand in regard to your operations and are you pursuing 8(a) program certification? Where do you go from here?

Mr. Bacoate. I am going to continue; yes. If you know, on the last item that I have received the 8(a) capability review application which I am in the process now of completing that. So, once that is done, I will submit it to the SBA. We will continue to pursue SBA certification.

Mr. Britt. No further questions, Mr. Chairman.

Mr. Mitchell. Congressman Chappie.

Mr. Chappie. No questions, Mr. Chairman.

Mr. Mitchell. Thank you. We will now hear from Mr. Chuck Byrd.

TESTIMONY OF CHARLES BYRD, CPA AND PRESIDENT, NORTH CAROLINA ASSOCIATION OF MINORITY BUSINESS, GREENSBORO, N.C.

Mr. Byrd. Members of the Committee on Small Business, hopefully my presentation is timely and it is not a horror story, although I do have a horror story to tell, but today I am not here to do that, I will send forward that to you later. You do not have my written testimony in hand, due to an oversight in the office, but you will have it before the evening is over.

Mr. Chairman, my name is Chuck Byrd. I am a certified public accountant living in Greensboro, N.C., and I am president of the North Carolina Association of Minority Businesses. It is as a representative of that trade association that I would like to speak to not a specific horror story but the conditions that exist in the environment in which minority businesses are forced to operate.

My statement to you is emphatic that minority business is good business. Minority business has for too long been an underutilized resource in this country. While blacks represent close to 12 percent of the population, there is only 2 percent of business ownership and one-half of 1 percent revenues represented in the black community.

However, I am optimistic, when I view the track record of the top 100 black-owned businesses and they are analyzed.

In 1972, revenues of these firms totaled $479 million. In 1982, over $2 billion. These firms demonstrated a 81-percent increase in assets after inflation, and 57-percent growth in revenues during this 10-year period, which was one of the most challenging economic periods in our Nation's history. This country needs that type of productivity and economic development. In the last 10 years, there has been a significant trend in movement from service-oriented companies to production and technology companies.

Historically, black businesses have had to operate in a restricted environment, identified as segregation. This helped contribute to limiting the growth opportunities for these firms. Today, we have attacked segregation by law, but in fact, the attitudes in the business of money changing hands has remained rooted in the past.

Society is composed of blacks and white, but the financial and political worlds have almost been entirely white. The stereotypical myths of minority businesses have been proven false. The creativity and fortitude of the minority entrepreneur has withstood the test of time, despite those old notions. Minority business can and does provide quality goods and services at a competitive price or else there would be no minority business.

I feel that the H.R. 2132 bill as introduced can favorably impact on these embarrassing percentages and stimulate minority business activity. I am wholeheartedly in support of this effort. The bill addresses significantly the capital and technical assistance needs of small business.

However, I would caution that funds not properly administered rarely serve the most productive purpose.

The Small Business Administration has a history of not fully utilizing the resources available, nor being efficient or effective with those funds obligated. I hope this committee could establish a system of accountability for the SBA.

I believe that the job training aspect of the bill is very important. Corporations compete for customers and employees, thereby having incentive to provide as much of what the customers and employees want as is economically feasible. People however are different in what they want. While many prefer the security perceived in a large concern, some employees prefer the chance for rapid advancement in a growing company, free from corporate politics and obstacles.

It is evident that larger firms have greater training budgets and a greater ability to carry an employee until they are trained to do a job than small concerns. However, small businesses have been responsible for the major portion of the new jobs created and innovation applied in the last decade.

Financial assistance in the area of job training would help small businesses better compete with human resources so vital to a healthy and growing concern.

In conclusion, I wish to thank you for your attention and for bringing this hearing to our State. Be assured that the North Carolina Association of Minority Businesses stands ready to support your committee's effort to insure the viability of small and minority businesses.

I think it is appropriate to be in North Carolina in that the environment in which we are operating has tremendous improvement to be made. Last year the State purchases on contract, only 1 percent went to minority businesses.

Thank you.

[Mr. Byrd's prepared statement follows:]

PREPARED STATEMENT OF CHARLES BYRD, CPA, AND PRESIDENT, NORTH CAROLINA ASSOCIATION OF MINORITY BUSINESS, GREENSBORO, N.C.

My name is Charles Byrd. I am a Certified Public Accountant living in Greensboro, North Carolina, and President of the North Carolina Association of Minority Business. My statement to you is emphatic—"Minority Business is Good Business." Minority business has for too long, been an under-utilized resource in this community. While blacks represent close to 12 percent of the population, there is only 2 percent of business ownerships and one-half of 1 percent revenues, represented.

I am optimistic when the tract record of the top 100 Black-owned business are analyzed. In 1972 revenues of these firms totaled $479 million, in 1982, over $2 billion. These firms demonstrated an 8 percent increase in assets after inflation factors and 57 percent growth in revenues during this 10 year period, one of the most challenging economic periods in our nations history. This country needs that type of productivity and economic development.

In the last 10 years, there has been a significant trend in movement from service-oriented companies to production and technology companies. Historically, black businesses have had to operate in a restricted environment, identified by segregation. This helped contribute to limiting the growth opportunities for these firms. Today, we have attacked segregation by law, but in fact, the attitudes in the business of money exchanging hands have remained rooted in the past. Society is composed of blacks and whites, but the financial and political world has been almost entirely white.

Philosophy has long taught that assumptions granted at the outset of any argument help determine the success or failure of a particular point of view. These assumptions set the framework for argument and determine how the issue is stated, how it is evaluated, the questions asked and the answers accepted as valid.

The stereo-typical myths of minority business have been proven false. The creativity and fortitude of the minority entrepreneur have withstood the test of time dispelling those old notions. Minority business can and does provide quality goods and services at a competitive price.

I feel that the H.R. 2132 bill as introduced can favorably impact on these embarrassing percentages and stimulate minority business activity. I am whole-heartedly in support of this effort. The bill addresses significantly the capital and technical assistance needs of small business. However, I would caution that funds not properly administered rarely serve the most productive purpose. The Small Business Administration has a history of not fully using the resources available, nor being efficient or effective with those funds obligated. I hope this committee could establish a system of accountability for the SBA.

I believe that the job training aspect of the bill is very important. Corporations compete for customers and employees, thereby, having an incentive to provide as much of what they want as is economically feasible. People, however, differ in what they want. While many prefer the security perceived in a large concern, some employees prefer the chance for rapid advancement in a growing company, free from corporate politics and obstacles.

Small business has been responsible for the major portion of the new jobs created and innovations applied in the last decade. Financial assistance in the area of job training would help small businesses better compete for human resources so vital to a healthy concern.

I wish to thank you for your attention and for bringing this hearing to our state. Be assured that the NCAMB stands ready to support your committee's efforts to insure the viability of small and minority businesses.

Mr. MITCHELL. Thank you; and I am not attempting to put you on the spot, all three of you, but I just want to share a thought with you. Throughout the years, I on occasion, have been pleased with SBA, and on other occasions I have been so frustrated I didn't know what to do. Always in the back of my mind is the idea that maybe we ought to scrap the whole structure and start all over again.

What I keep trying to do is piecemeal it, to make it work, because I think the concept is right. I have raised questions about the politicality of SBA, how some of the key jobs are certainly filled by purely political types rather than by people who have the ability to help small business or have owned a small business. I get caught up in the real dilemma: Do we keep trying to make this thing work or do we try to end it? But, when I say that, I ask myself, given the general mood of the Nation and the administration right now, is it possible we could get through a new entity? I don't know.

I am quite frankly asking you to get inside my head. Don't do it now, give some thought to it: whether or not we should think of another strategy. They keep piecemealing year after year. Sometimes SBA delivers very, very well. The success stories that I have mentioned many times attest to its ability to do the right thing when it wants to do the right thing.

I guess the best thing is to think about it and see if there are some other approaches. I have one approach that is right now in legislative form, and that is the SBA personnel bill. It is clear that there is just too much political patronage in the SBA structure. SBA has 50 political appointees; they know at least they are going to be there during that administration but they have no long-term commitment. That is one thing we will be looking at.

We need qualified personnel. I am appalled when I see people in equal employment opportunity offices in other agencies come to SBA as a loan officer.

Mr. Byrd. I didn't call for dissolution of the organization, I called for accountability.

Mr. Mitchell. I know you didn't.

Mr. Byrd. Even though they are political appointees.

Mr. Mitchell. I understand you loud and clear. But I am just articulating my own frustration.

Mr. Bacoate, you are now in the second phase, right?

Mr. Bacoate. Well, yes, like the phase I am in now is starting all over again.

Mr. Mitchell. When did you start that phase?

Mr. Bacoate. I received it March 11, and as I stated a moment ago, I am working on it now, because almost identically the same information that I submitted initially I have got to submit again. However, I realize some information must be updated because it has been so long.

Mr. Mitchell. That is fine. I want you to give it your best shot. But my frustration comes in—you started the second phase on March 11; that is 3 years after you got started on the first phase.

Mr. Bacoate. That is right.

Mr. Mitchell. What kind of guarantee do we have on the committee that SBA is going to answer him one way or another within the 90 days that they set for themselves? That is their testimony before the committee. They say we always strive for a not more than 90-day period where a person gets an answer. You weren't the bomb thrower.

Mr. Bacoate. That is what you are talking about, Congressman. You are told that, however, as you have seen, the documentation——

Mr. MITCHELL. That is what I am talking about. What reason do we on the committee have to assume that this action that you have initiated in March 1983 is going to be handled in an expeditious manner? That is what causes me frustration. I don't blame you, Mr. Byrd, you didn't say root it up and throw it out. I thought about it. OK.

Mr. BACOATE. There is one other thing—I am sure you are aware of it—there is preferential treatment, maybe some of these organizations, you know where the 8(a) program is working, there is preferential treatment involved, based on political affiliation, which I can understand. Then there is another avenue, wherein there are certain people that you can hire, for a fee, who will lobby for you and will guarantee 8(a) certification.

Mr. MITCHELL. What?

Mr. BACOATE. You hire, you pay them and they will guarantee you 8(a) certification and get the size contract that you want.

Mr. MITCHELL. Do you know cases of this?

Mr. BACOATE. Yes, sir.

Mr. MITCHELL. You can document it?

Mr. BACOATE. Yes, sir.

Mr. MITCHELL. Those people belong in jail. That is right. It is against the law to do that. Will you provide us with your documentation?

Mr. BACOATE. Yes, sir.

Mr. MITCHELL. That is a violation of law. Please let us have the documentation.

Mr. BACOATE. This is 8(a) certification and business.

Mr. MITCHELL. Will you let us have that documentation?

Mr. BACOATE. Yes, sir.

Mr. MITCHELL. Please.

Mr. BACOATE. Yes, sir.

Mr. MITCHELL. Congressman Chappie.

Mr. CHAPPIE. No questions.

Mr. BRITT. I would like to again make reference to Mr. Byrd being from a very fine Sixth District and a friend. Mr. Byrd, we have heard a couple of horror stories that have been described here today and I am very concerned about that and would like to have your overall assessment, as president of the North Carolina Association of Minority Businesses, of the role of the SBA. Is this atypical? Is this typical? Do you have any success stories that are positive? Can you give us your best assessment of the SBA structure?

Mr. BYRD. Well, I would say since you only had 1 day to conduct this hearing, that you are only provided with the number of horror stories that could be fit into this 1 day. I am not going to say that it is typical of the SBA exclusively, I think it is typical of the environment in which we are interacting. We have the same problem with State government in North Carolina, and I think just like in private industry, when you have the commitment of the CEO, but that is not translated down through the ranks. The CEO doesn't work with the policy everyday, does not administer the policy everyday, as it is translated down into the ranks. If there is no accountability, then I think it gives people a broad framework within which to bring their personal feelings which all the time is not conducive to good business for minorities.

So, I wouldn't criticize the SBA exclusively for this. I think it is indicative of something that we need to look at throughout levels of government.

Mr. BRITT. No further questions.

Mr. MITCHELL. Thank you, gentlemen.

Our next witnesses are Phillip Cooper, president, Cooper & Cooper, Inc.; Ed Mayorga and Bob Blankenship, for the Cherokee Trout Farms. Would you all three come up, please.

PANEL CONSISTING OF PHILLIP COOPER; EDWARD MAYORGA; AND MIKE LACKEY

TESTIMONY OF PHILLIP COOPER, PRESIDENT, COOPER & COOPER, INC., RALEIGH, N.C.

Mr. COOPER. Thank you, Chairman Mitchell, members of the Small Business Committee, Mr. Britt, Mr. Chappie.

Thank you for the invitation and opportunity of appearing before you to testify on the bonding problems and opportunities encountered by minority businesses.

I have found the various public laws and acts that are designed to rectify the present effects of past discrimination very helpful in terms of providing opportunity for minority businesses.

Minority businesses have tried for years to gain a representative piece of the action in the construction and manufacturing industries.

In this time of rising cost brought on by inflation, we as small businessmen are constantly seeking ways and opportunities by which we can become more competitive and still realize a profit.

As our firms become technically, managerially, and financially stronger, we increase the rate at which we approach independence. As we approach independence, our contribution to the Nation, our families, and our self-respect increases.

Even with the greater opportunity that we have, our chances of becoming successful are still limited. It is limited because the projects and contracts that offer a larger profit margin, a larger piece of the pie, are beyond our reach due to the stringent bond requirement. It is limited because the contracts we most often receive are in the form of subcontracts in which the bond is sometimes waivered.

In bidding to obtain contracts, both State and Federal agencies ask for such large bond percentages that bidding these jobs as a prime contractor is only a dream for the vast majority of the capable minority businesses. When we have been successful in obtaining bond and a contract, the bonding company must hold our cash and the project owners are deducting and holding a 5 to 10 percent retainage that there exists no room and means for expansion.

In preparing financial statements for a bond, the bonding company requires statements that are prepared by a certified public accountant. When the CPA asked me to submit the purchase price of my equipment to be included in the financial statements I tell him that my father gave the equipment to my company. Then this equipment does not contribute to my bonding capacity. The financial documents as prepared do not reflect the fair market value of the equipment, but only the purchase price, which says nothing of the ability to perform.

There exists a shortage of bonding companies that will attempt to bond a minority company. When there is such a company, the premiums are much higher than would be for a majority company. Thus, our bids would be higher or we would have to lower our profit margin in order to remain competitive.

I recently testified before the North Carolina Legislature Committee and a bonding company representative noted that his company had never bonded a minority contractor.

Even with the higher premiums and lower bonding capacity, we still have the problems of establishing lines-of-credit and raising working capital. Because the minority banks are more consumer oriented and have little experience in dealing with minority businesses and contractors, they are reluctant to loan us money. The large banks dwell on our lack of experience in the industry and the fact that we have not been a valued customer of theirs long enough. So they too turn us down.

With the added opportunities of the Surface Transportation Act of 1982, there is a greater need of establishing lines of credit and working a capital loan. With the act I am fearful that the State of North Carolina and the Department of Transportation and the Department of Commerce have not taken an active enough role in preparing and assisting minority businesses and minority controversy.

On February 23, 1983, I convened a meeting of the MBE's and the North Carolina Department of Transportation. This meeting was the first of its kind in this State. In attendance was the secretary, W. R. Robinson, assistant secretary for civil rights, Bill Oates, Vernon Jones of the Federal Highway Administration, Billy Rose, city highway administrator, and others. I offered a host of problems that affect minority businesses and offered possible solutions. The most pressing problems for bonding were lack of work, capital, and sufficient cash flow. I recently learned that the most promising solution would possibly be denied, the solution of acceleration of release and retainage or elimination of retainage and implementing of bond progress payments.

Black people have always been the ones who physically build the roads, bridges, and buildings. Because of the inability to obtain bonds, we are denied the opportunity to bid the construction projects.

If there exists a more lucrative means of obtaining capital and bond, then the minority businessman could become more independent. The process of becoming independent is similar to that of a person learning to walk. Initially it is necessary to hold the person's hand, but once he has mastered the process, he insists upon going it alone.

We still need a hand up, but our goal is to be on our own.

In closing, please keep in mind that minority business is good business, and we too are rebuilding America.

Thank you.

[Mr. Cooper's prepared statement follows:]

PREPARED STATEMENT OF PHILLIP COOPER, PRESIDENT, COOPER & COOPER, INC., RALEIGH, N.C.

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We still need a hand up. But, our goal is to be on our own.

In closing, please keep in mind that Minority Business is Good Business, and We too are Rebuilding America.

Thank you.

Mr. MITCHELL. Thank you very much.

We will now hear from the next witness.

TESTIMONY OF EDWARD MAYORGA, PRESIDENT, R&E ELECTRONICS, INC., WILMINGTON, N.C.

Mr. MAYORGA. Mr. Chairman, members of the committee, my name is Ed Mayorga. I am president of R&E Electronics in Wilmington, N.C.

On behalf of the North Carolina Hispanic delegation, which happens to be just myself, I am pleased to be here.

R&E Electronics is a specialized communications concern. We manufacture and engineer systems for cable TV, local area networking systems, telephone interconnect, and computer based access control systems. I purchased R&E Electronics in mid-1974, which at that time had a deficit net worth of over $40,000. It employed two people with an annual gross that previous year of $34,000. It was the only business I could find that I was able to afford.

As you can well imagine, during those earlier years, we had many, many problems with lack of capital, lack of trained people, and growing in general. The North Carolina Minority Business Development Center did some hand holding and walked me through the usual route of knocking on doors of the banks, the local investment companies, SBA, all of which had turned us down, due to our lack of capitalization.

The 8(a) program turned us down initially in 1975 because we were too economically disadvantaged for them.

So we pursued, pushed, over a period of several years and visited a number of MESBIC's. No offense to Van Guard, who was here earlier. They turned us down for the same reason: Lack of tangible assets. In 1977 we were introduced to Sears which owned a MESBIC, Tower Ventures, who invested $30,000 in us. This was the only money that we were able to secure during early years.

Mr. Mitchell, you alluded to the fact earlier that high technology concerns can obtain venture capital fairly easily. If you are a development engineer for Hewlett-Packard, a TI engineer, or a Mr. DeLorean, who decided to build his own automobile company, yes, it is easy.

Minority groups, minority individuals, that do not have a high individual income, or a prominent family background, and find it extremely difficult, no matter what field they are in to obtain working capital.

We reapplied in 1977 for the 8(a) program. In 1980, the SBA finally deemed that we were economically solvent and certified us.

Over the years, we pursued many of the programs which you have helped institute, the EDA 10-percent setaside, the Army pilot programs, Public Law 95–507, the SBA breakout program.

Not only are these programs directly beneficial to the companies involved, but the services supplied by these companies provided opportunities and jobs to the local communities they serve.

The SBA breakout program, whereupon SBA had a pilot program to remove a number of items from the DOD catalog inventory of parts. Small and small minority businesses were awarded 181 contracts. These 181 contracts averaged a 38-percent decrease in cost to the Government, 38 percent less than larger corporations in the past.

Unfortunately, the only thing the public hears of programs such as the SBA breakout, the 8(a), and other comparable programs are the negative aspects. In addition to the direct economic and employment benefits derived as a result of these programs, they are a cost-effective tool. Until the legislative Small Business Committees decide to publicize the positive aspects of these programs, they will be a continual source of controversy.

Our rapid growth created the expected inadequate capital situation which we are dealing with. This growth created an unexpected but even more difficult problem in coping with: Finding qualified personnel.

Our type of business, high technology communications is a specialized field in which we have no choice but to train from within. We cannot afford to hire a Hewlett-Packard, Pitney Bowes, or a TI engineer and supply training. Because we are a small specialized organization, all of our people must be productive. To train these people we need assistance, we need help. That is why we are thankful for your H.R. 2132. This will give us the means in order to train our people within our organization.

Much of my written testimony concerns many of the problems relevant to Public Law 95-507 which I hope the committee will find it in their interest to investigate why it is not being enforced.

I would like to emphasize the importance of publicizing the cost/benefit aspects of legislation in effect.

Unfortunately, the hostility that has been created through the ineffective distribution of much of this information to the public polarizes many of the legislatures efforts in dealing within this environment. It will be extremely difficult to address these issues until a conclusive atmosphere is present.

I do thank you for your time and I appreciate being here today.

[Mr. Mayorga's prepared statement follows:]

PREPARED STATEMENT OF EDWARD MAYORGA, PRESIDENT, R&E ELECTRONICS, INC., WILMINGTON, N.C.

Mr. Chairman, members of the committee, I am very honored to have been given the opportunity to testify before you today on the inherent problems minority business entrepreneurs face in dealing with the Federal sector.

Over the years there have been, and are, many well intended programs initiated in general by the House, Senate and White House Administrations. Congressman Mitchell, you in particular have spearheaded the bulk of this legislation. Unfortunately, the negatives instead of the success stories are typically the only feedback the American public hears. The EDA 10 percent set-aside program several years ago did not create a hardship nor did it cost the taxpayers any money as the AGC (Associated General Contractors) wanted the public to believe. As many of you know, AGC, is an organization representing over 30,000 majority contractors whose members preach the doctrine of ample opportunity for firms of all sizes and composition to obtain a fair share of Federal outlays for public works projects. They recently recommended to the White House through the Small Business Task Force: "Elimination of special preference procurement programs for small business and minority business." This same organization that desires to exclude minority organizations failed to consider there own member organizations anti-competition posture in the recent bid-rigging scandal.

The Army Pilot Program of several years ago even though it helped out a relatively small number of organizations, the success stories were not told.

The SBA Breakout Program which was a recent test program at the Air Force Logistic Center, whereby small business was given an opportunity to participate in the production of 4 million spare parts in the DOD inventory. Small business was provided 181 spare parts contracts for the Air Force at the average cost savings of 38 percent over similar work done by large corporations. Even though Administrator James Sanders has extended the program throughout the Air Force and to the Navy and Army, only some 300,000 of DOD's catalogue of 4 million spare parts are open to competitive bidding.

The 8(a) program of which I am a part of, has been under fire the last couple of years deservedly so. The media along with major contracting organizations publicize the handful of front organizations in the program or convey the program as a handout, so therefore it is undeserving of support. By placing the 8(a) program in proper perspective, it can be shown as a program which primarily is a very cost-effective tool to Government and secondarily is an opportunity for economic progress and independence for minority organizations. When an IFB or invitation for bid is advertised by the Government they are obligated to award the procurement to the lowest responsive bidder. When a sole source procurement is negotiated as an 8(a) set-aside, the agency must first establish its budget for the procurement. The 8(a) concern must prove capability, competitiveness and accessability to the materials as required to meet the specifications. If any one of these three criteria is not met, the procuring agency can terminate negotiations and advertise the solicitation on a competitive basis. On the other hand, if the procuring agency finds the 8(a) concern responsive, the agency has the complete flexibility to negotiate out any proprietary aspects of the solicitation thereby reducing costs and acquiring equipment ideally suited for its particular application.

Any program or problem can be rationalized or simplified to accomplish its goals and objectives. Unless we can overcome the impediments to competitiveness through long range solutions we are doomed to fail. Within the 8(a) program there is such a solution in your "criteria of competitiveness" as defined in your H.R. 863 bill, a most important and necessary piece of legislation.

For minority entrepreneurs both within and outside the 8(a) program, the means to the solution of maintaining a viable, competitive business is the proper maintenance of adequate capital. Being a hispanic entrepreneur, doing business in the Federal sector only compounds the problem of capitalization. The prompt pay act which became effective as of 10/01/82 was a help in some industries. Due to the type of funding many Government Agencies deal with in the telecommunications, cable TV and high technology fields, which we are involved in, adequate capitalization is a very high hurdle to leap. Areas which once were only relegated to the Fortune 500 has now proven cost-effective for small business vis-a-vis the SBA breakout program mentioned earlier. Unless the Government puts all of its energies into the support and passage of H.R. 2132, funding for programs which are necessary to ensure the viability and growth of small and minority business owners will end or be reduced.

I would like to emphasize that there has been and are many laws currently on the books which support the rights of minority entrepreneurs to achieve independence by opening a door. Unfortunately, many times that door is not opened. Public Law 95-507 states that prime contractors which do business with the Federal Government must make a concerted effort to procure supplies and services from minority entrepreneurs. This concerted effort on the part of many of these contractors is to place a $50.00 advertisement in the classified section of the newspaper requesting bids from minorities. Some get a little more personal by sending a boilerplate letter to minority contractors listed in a directory. Unless one has previously done business with these contractors, it is extremely difficult to even get an audience. The normal response is for them to advise you to order plans and give them a price. Many larger corporations that we deal with, such as Stromberg-Carlson, which was recently purchased by United Technologies, Lexar has made a truly concerted effort with us. They have supplied us on there own with engineering and technical assistance. Other companies, such as Carolina Power and Light, we many times are not even given the opportunity to quote. When we question the corporation executives, they had the regional representative, who was a part of the original illegal purchase, visit us and when confronted with the facts admit that proper procedures were not followed. Prior to departing the office he personally apologized for their error but stated they could not put it in writing and this would be the end of it.

Public Law 95-507 was a very important piece of legislation. If administered, it would be an extremely effective bill in that it would open a door; our immediate goal. It would help prevent the CP&L's from a sole source procurement from another utility.

In conclusion, I would like to emphasize the importance of programs and legislation mentioned herein. Unfortunately the hostility that has been created through the ineffective distribution of information to the public polarizes legislative efforts necessary to create a harmonious business environment. Unless this is resolved, it will be extremely difficult to address the efforts which must be made to assist minority business with management and equity assistance.

Thank you for this opportunity to express my views and to share my experiences with you.

Mr. MITCHELL. Thank you very much. I had one or two questions I wanted to ask after we have had heard from the last witness. You have been wonderfully patient to have stayed with us all day, as has the audience been wonderfully patient. We appreciate it.

TESTIMONY OF MIKE LACKEY, BUSINESS DEVELOPMENT CENTER, CHEROKEE INDIAN RESERVATIONS, CHEROKEE, N.C.

Mr. **LACKEY.** Mr. Congressman, I am not Bob Blankenship, my name is Mike Lackey. I am with the Business Development Center on the Cherokee Indian Reservations. Mr. Blankenship is at about that very important business of making money. He has an investment to protect. Unfortunately that crystal clear water we have on the Cherokee Indian Reservation sometimes comes down with a little acid rain problem and his trout farm happens to be located on a watershed which gets a little acid rain and sometimes kills his fish, so he is protecting about a $300,000 investment right now.

Mr. **MITCHELL.** Would you move the mike down a little closer to you.

Mr. **LACKEY.** I want to deviate a little bit from my prepared statement here. I had intended to go into some of the Federal-tribal relationships which have existed. Suffice it to say that from the time of the first Congress, that Congress realized the special relationship which the U.S. Government has with the Indian tribes. In 1790 they enacted the Non-Intercourse Act which protected Indian lands and also numerous court cases where we received the special recognition.

I wanted to go into some barriers which inhibit the Indian economic development. I am a member of the board of directors of the American Indian Development Corp. That is a nonprofit corporation that was formed to describe and delineate some problems which Indians have in accessing capital. We have thoroughly documented numerous barriers to Indian economic development.

In part, needed capital does not flow to Indians because of the condition of reservation economies. Most reservations are remote from market centers because Indians were relocated to isolated areas. The result is that the reservations are so far from the major economic centers of this country that industrial development is minimal. Indian entrepreneurial and management skills are generally not well developed. Indian tribes and individuals do not have sufficient equity in the form of savings or excess revenues to capitalize their projects. Because of protective devices placed around Indian reservations, Indians experience great difficulty in accessing capital and credit from private financial institutions. Capital obtained from private financial institutions is generally short-term debt which places severe debt service demands on the firm and inhibits growth through reinvestment of profits.

Lacking internal capital and cutoff from private capital and credit, tribes and individuals are almost totally dependent on the Federal Government for development capital. Yet, historically, the administration of these funds has diminished their impact, and the level of funding, previously insufficient, is now significantly reduced.

The special Federal-tribal relationship has also resulted in the creation of certain legal barriers to Indian economic development. The trust status of Indian lands and resources generally means that they cannot be pledged as collateral. This fact, coupled with tribal sovereign immunity and the lack of State jurisdiction on most reservations has reportedly led most private or commercial creditors to avoid investments in Indian economies. These legal barriers are perceived to create additional risk and uncertainty for private and commercial investors.

The documented need for economic development in Indian country persists. What is required is a new independent and autonomous institution which consolidates the economic development functions previously performed by agencies now being consolidated and/or abolished. This institution should be structured to provide improved technical assistance, project evaluation, loan review, and monitoring to increase the success of development projects in Indian country.

The creation of an American Indian Development Finance Institution, in light of the economic policies articulated by the current administration, should be seen as an opportunity to demonstrate the administration is now charting a course for development of Indian economics through a partnership arrangement, and that this new arrangement will enable Indian tribes and individuals to overcome Government dependence by focusing on investment which will maximize the rate of return on capital and contribute positively to the capital structuring and formation process of Indian country. The creation of an AIDFC is viewed by the National Congress of American Indians Economic Development Committee as one of the long-term solutions to Indian economic development.

However, it is only one spoke in the wheel of Indian community development. Other institutions, mechanisms, and tribal strengths must be built upon to achieve any development, whether it be economic or social. The Congress and the administration can assist the Indian people in their endeavors to help themselves by creating institutions which address the problems, not the symptoms, over the long term as well as assisting in the mid- and short-term, in a comprehensive approach.

Thank you.

[Mr. Lackey's prepared statement follows:]

PREPARED STATEMENT OF MIKE LACKEY, BUSINESS DEVELOPMENT CENTER, CHEROKEE INDIAN RESERVATIONS, CHEROKEE, N.C.

Indian tribes have long been regraded as having a unique and special relationship with the Federal Government. The United States Constitution provides that the Congress shall have the power to regulate commerce "with the Indian Tribes". From the very beginning of the federal government, the Congress has recognized the special relationship with the Tribes. Thus, the first Congress in 1789 enacted the Northwest Ordinance which declared:

"The utmost good faith shall always be observed toward the Indians; their lands and property shall never be taken from them without their consent; and in their property, rights and liberty they shall never be invaded or disturbed, unless in just and lawful wars authorized by Congress; but laws founded in justice and humanity shall, from time to time, be made, for preventing wrongs being done to them, and for preserving peace and friendship with them." (1 Stat. 50, 52; Article III of the Northwest Ordinance.)

In 1790 Congress enacted the Non-Intercourse Act which protected Indian lands from divestment except through federally negotiated treaties. This Act has been judicially determined to establish a fiduciary obligation on the part of the United States to protect Indian lands.

Over the years, detailed articulation of the Federal/Tribal relationship has come from both the Congress and the federal courts. In *Cherokee Nation* v. *Georgia* the Supreme Court determined that the Tribes are "domestic dependent nations" and that their relationship "to the United States resembles that of a ward to his guardian". In *Worchester* v. *Georgia* the Supreme Court reaffirmed the status of the tribes as self-governing entities and further held that the laws of the State of Georgia had no applicability on the Cherokee Reservation.

The fundamental legal principles enunciated in "Cherokee nation and Worchester" continue to form the legal foundation of the Federal/Tribal relationship. Tribes retain those sovereign powers which the Congress has not limited or otherwise taken away. One attribute of Tribal Sovereignty is immunity from suit. Tribes have full authority to govern themselves, subject to such restrictions and exceptions as the Congress may impose. Most state laws are not appliable to reservation Indians while they are on the reservation. However, Congress has enacted laws providing for enforcement of state law on reservations where the Tribe consents to state jurisdiction.

The Congress has also enacted a wide range of laws intended to protect Indians and their property while at the same time promoting economic self-sufficiency. Thus, most Indian lands and resources are held in trust by the United States for the benefit of Indian Tribes and individuals. Contracts, liens or other encumbrances on Tribal or individual trust property are void without proper federal approval. Commerce and trade between Indians and non-Indians is regulated by federal law. The courts have required the Department of Interior to promulgate regulations to govern the conduct of trade between Indians and non-Indians on federally established reservations. Also, pursuant to Acts of Congress, the Department of the Interior has promulgated regulations governing the use and management of Indian lands and resources. Regulated activities include mining, forestry, irrigation, oil and gas development and rights-of-way for all purposes. The Interior Department also regulates the use and investment of Tribal and individual Indian funds. From this overview of the federal/Tribal relationship, we can conclude that the federal government exercises direct fiduciary authority over Indian lands, resources, finances and economic matters. Tribes are sovereign entities which are generally free from state regulation and jurisdiction. As sovereigns, Tribes enjoy immunity from suit and possess the necessary legal authority to be self-governing.

BARRIERS INHIBITING INDIAN ECONOMIC DEVELOPMENT

The American Indian Development Corporation has thoroughly documented numerous barriers to Indian economic development. In part, needed capital does not flow to Indians because of the condition of reservation economies. Most reservations are remote from market centers because Indians were relocated to isolated areas. The result is that the reservations are so far from the major economic centers of this country that industrial development is minimal. Indian entreprenurial and management skills are generally not well developed.

Indian Tribes and individuals do not have sufficient equity in the form of savings or excess revenues to capitalize their projects. Because of protective devices placed around Indian reservations, Indians experience great difficulty in accessing capital and credit from private financial institutions. Capital obtained from private financial institutions is generally short term debt which places severe debt service demands on the firm and inhibits growth through reinvestment of profits. Lacking internal capital and cut off from private capital and credit, tribes and individuals are almost totally dependent on the Federal Government for development capital. Yet, historically, the administration of these funds has diminished their impact, and the level of funding, previously insufficient, is now significantly reduced.

The special federal/Tribal relationship has also resulted in the creation of certain legal barriers to Indian economic development. The trust status of Indian lands and resources generally means that they cannot be pledged as collateral. This fact, coupled with tribal sovereign immunity and the lack of state jurisdiction on most reservations, has reportedly led most private or commercial creditors to avoid investments in Indian economies. These legal barriers are perceived to create additional risk and uncertainty for private and commercial investors.

The documented need for economic development in Indian country persists. What is required is a new independent and autonomous institution which consolidates the economic development functions previously performed by agencies now being consolidated and/or abolished. This institution should be structured to provide improved technical assistance, project evaluation, loan review and monitoring to increase the success of development projects in Indian country.

The creation of an American Indian Development Finance Institution, in light of the economic policies articulated by the current administration should be seen as an opportunity to demonstrate that the administration is now charting a course for development of Indian economics through a partnership arrangement, and that this new arrangement will enable Indian tribes and individuals to overcome government dependence by focusing on investment which will maximize the rate of return on capital and contribute positively to the capital structuring and formation process of Indian country.

The creation of an AIDFC is viewed by the National Congress of American Indians Economic Development Committee as one of the long term solutions to Indian economic development. However, it is only one spoke in the wheel of Indian community development. Other institutions, mechanisms, and tribal strengths must be built upon to acheive any development whether it be economic or social. The Congress and the Administration can assist the Indian people in their endeavors to help themselves by creating institutions which address the problems, not the symptoms, over the long term as well as assisting in the mid and short term-a comprehensive approach.

Mr. MITCHELL. Thank you very much.

I am going to ask Congressman Britt to lead off with questions and then Congressman Chappie will follow him.

Before you put your question, I might say that I embraced heartily the Lumbee Indians in Maryland and in North Carolina, many, many years ago. I recall during the vicious days when the Klan attempted to come into Lumbee Indian territory and have a rally, they had a little light bulb set up. The Indians shot out the light bulbs, shot up the rally, and I have loved them dearly since that time.

Mr. BRITT. Mr. Cooper, I would like you to give a little more detail on the bonding problem. That is a problem that has been addressed by the Congress, and by Chairman Mitchell, in particular. I would appreciate it if you could give us one specific example of some of the problems. I think it is a very important question.

Mr. COOPER. Yes, sir, Mr. Britt. I have been informed by various minority contractors that when they approach bonding companies and large insurance companies they are turned down before they can really get their appointment, and they have to resort to an SBA bonding program.

At one time in North Carolina I believe we had such a program in Charlotte. I think it has been moved to Atlanta. But, nonetheless, when we do apply for bonds, the premium is almost twice as much as it would be through normal channels. In other words, our competitors, majority contractors, can get bonding, or be bonded at half of what we have to pay for ours.

In order for us to remain competitive we have to lower our profit margin. Also, as I pointed out, bonding companies when they look at the final statement, whether you have got five dump trucks 10 years old and could work every day just like 1983 dump trucks, it reflects differently on their financial statement, and even though they have the same, in my opinion, the same equipment of performing, bonding companies, CPA's do not give us much credit for what we have, and because banks are unwilling to extend us loans of credit or give us work capital on contracts, we just can't afford to buy those new model equipment.

I also have been told by an associate of mine in Charlotte that he was denied a bond from an SBA bonding company. Nonetheless, he obtained his contract. I think his contract was initially for around $100,000 in the Concord area, and before he left he did offer a million dollars' worth of work in that Concord area without obtaining a bond but yet still he tried. I think he was fortunate enough to convince the company, Phillip Morris Co., to give him an opportunity to perform and he performed well.

Mr. **Britt**. Mr. Mayorga, you mentioned you participated in the 8(a) program. What would you say from that participation are the major advantages? Also, what would you say are the major weaknesses?

Mr. **Mayorga**. When I bought R&E Electronics, we were primarily a local-oriented company, even though we are capable of going anywhere and performing with any of our competition: Bell Telephone, Rolm, ITT, and RCA. We obtained one of our first 8(a) contracts with the FAA in Atlantic City for an integrated computer access control, which controlled the ingress and egress of over 2,000 people. It was not all that large by today's standards. It was $200,000, or a fair-sized contract then.

Shortly after negotiating this and beginning work which involved both the design and installation, this particular system is considered the model access control system for all the FAA sites worldwide. It was because of this particular contract that we were invited to compete against Honeywell and Rusco on a system in Florida, for Atlantic National Bank.

We were awarded 6 months ago a contract for a multibank security system similar to the FAA project on a competitive basis against two major manufacturers, specifically because of our track record in the 8(a) program. Every project we get in the 8(a) program we multiply that times three in the private sector. It's because of the 8(a) program that we are doing so well commercially.

Mr. **Britt**. Thank you.

Mr. **Mitchell**. Mr. Chappie.

Mr. **Chappie**. One brief observation and a question.

Mr. Mayorga, I want to commend you and compliment you. You have really brought a ray of sunshine to us today. We are oftentimes prone to continue to flail a dead horse.

You have proven to me that perhaps there is a dual function in this process in that when a program functions and provides a service that it is intended to, that we should give it credit and acknowledge it, and I commend you for that. I have gained better insight into some problems that beset all of the witnesses today and so you have been a breath of fresh air. I would like to ask Mr. Lackey one brief question. Perhaps it will be difficult to respond, but let's try.

I trust that this State is a treaty State.

Mr. **Lackey**. Yes, sir.

Mr. **Chappie**. That the Indians are not wards of the Bureau of Indian Affairs?

Mr. **Lackey**. Sometimes we wonder.

Mr. **Chappie**. Well, I don't know, we will talk about it after the hearing, in that I come from a State where BIA maintains control. Can you tell me if there is a differentiation in terms of availability of SBA programs to treaty States as opposed to nontreaty States?

Mr. **Lackey**. No; I don't think so. We have had fairly good success working with the SBA loan programs, both the guarantee and direct program. Of course, I believe the direct funds are no longer in existence. I have got a letter that stated that.

Mr. MITCHELL. Could I interrupt you for a moment? I am trying to keep my blood pressure down. They are in existence. The Congress authorized money for direct loans, $260 million that SBA has right now for fiscal year 1983. Is that right?

Mr. TRIMBOLI. Yes.

Mr. MITCHELL. I get infuriated when these various offices say they don't have any direct loan money.

Mr. LACKEY. I have on my desk a letter from the Charlotte district office which says there are no direct funds available.

Mr. MITCHELL. What date?

Mr. LACKEY. Just 2 months ago.

Mr. MITCHELL. They had the money then.

Mr. CHAPPIE. Maybe you should give the chairman the phone number.

Mr. LACKEY. I am talking about guarantee.

Mr. MITCHELL. I am talking about direct loan money. I just went through this exercise with the Budget Committee and Appropriations Committee. There is a total of $263 million there for this fiscal year.

Mr. LACKEY. Very interesting.

Mr. MITCHELL. May I have a copy of that letter, please?

Mr. LACKEY. Yes, sir.

Mr. MITCHELL. I am sorry.

Mr. CHAPPIE. I am going to quit asking questions. I don't want you to have a seizure.

Thank you very much.

Mr. MITCHELL. Mr. Cooper, are you an 8(a)?

Mr. COOPER. No, sir; I am not.

Mr. MITCHELL. Were any of the firms that have difficulty in getting bonding 8(a) firms?

Mr. COOPER. I will mention most of my contacts are highway contractors. I believe there is not a licensed highway contract that is 8(a) certified in the State of North Carolina.

Mr. MITCHELL. What I was trying to get at is there was authority given to the Small Business Administration to waive bonding requirements under certain conditions. We are trying now in Congress to extend this authority. I think that word ought to get out to all of those who are 8(a). To the best of my knowledge, I don't think SBA has ever used this bond waiver, in the past. But I would like to know people's experiences, whether they ever: One, have heard about the bond waiver program through the local SBA offices and, two, whether they applied and what their experiences were when they applied for a bond waiver.

Mr. COOPER. Congressman Mitchell, an 8(a) firm out of Pennsylvania received an Army Corps of Engineers contract here in the Raleigh-Durham area. I was attempting to do some business with that firm because the firm did not specialize in highway or heavy construction. They were in something farfetched. One of the problems that hindered me doing a subcontract item with them was they had trouble getting a bond. If I am correct, I believe the 8(a) firm merged, a joint venture with a large general contractor from Raleigh, and the general contractor performed only the job basically to get that bonding capability. So SBA did not waive that requirement.

Mr. **Mitchell**. We certainly intend, with the cooperation of all Members of the Congress, to extend that bond waiver provision. But SBA has to be made to use it when the program gets reauthorized. Lord knows many companies that I have dealt with have run smack up against the bonding problem, and it's an impediment.

I would guess all three of you would support the legislation that we proposing. Have you had a chance to read H.R. 2132?

Mr. **Cooper**. Yes, sir.

Mr. **Mitchell**. Is there general support for it?

Are there changes you want to make or recommendations for changes? Let us know because we want to try to move that bill as quickly as possible.

Mr. **Cooper**. Thank you.

Mr. **Mitchell**. Thank you, gentlemen.

Mr. **Mayorga**. Thank you.

Mr. **Mitchell**. For the benefit of those who participated in the hearing, you probably wonder why we come and spend all day and what is the bottom line. Well, I think both of my colleagues from the committee here with me agree that the only way we can find out things is to go out to the field.

It's almost impossible for small firms to come into Washington, pay their air flight costs, stay in a hotel overnight. Therefore, we get a selected number or a particular type of witness who is able to do that and we don't see the whole picture. That is one of the reasons why we come out. We try to go into the field at least 4 times a year, if not more.

Is it worth it?

[Someone in the audience replied "Yes."]

Mr. **Mitchell**. The people who testified, are likely saying to themselves: "We took all our time writing our testimony but what will happen? I can only tell you that over the past 2 years, as a result of field hearings, we have been able to bring about some changes. We have done some things not only with regard to the Small Business Administration but with other agencies of Government and those changes have come about particularly because of the testimony we received from the people out there operating businesses.

I can't promise you the world. I can't say everything is going to be all right next week, or Wednesday when we get back, or that we will just call up SBA and say change everything and they are going to do that. That is not going to happen. There is going to be persistent effort plugging away to make minority businesses and small businesses achieve the place that they ought to achieve in this economy. All I can promise you is the same promises I have been giving for lo these many years. I can't guarantee anything except we will give it the maximum effort. I think if we do that as a followthrough, things will be a little better.

Thank you. You have been very kind to stay all day and be with us, taking the time away from your business. All of you have lost money. The minute you are out from your business for 24 hours you lose some money. That is all right; it was well worth it and you will make that up next week.

Thank you so very much. It has been a good hearing. It has been singularly beneficial to me and I am certain to the other members of the committee.

With that, the hearing stands adjourned.

[Whereupon, at 3:10 p.m. the committee adjourned, to reconvene, subject to call of the Chair.]

SBA AUTHORIZATION AND OTHER SMALL BUSINESS LEGISLATION

THURSDAY, APRIL 21, 1983

House of Representatives, Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, Committee on Small Business,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. Good morning. Today we begin hearings on matters of paramount importance to the Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, the Congress, and the small business community. We shall examine small business job creation legislation and omnibus legislation rewriting the Small Business Administration's fiscal year 1984 and 1985 authorizations to support this and other initiatives.

I know the members of the subcommittee share my continuing concern over the latest unemployment statistics. The first quarter figures show nearly 16 million Americans are out of work. This is 15 percent of the civilian labor force, and it includes discouraged workers and other jobseekers.

Small businesses still face extremely high real short-term interest rates. Small businesses depend upon short-term credit; they have historically paid interest rates about 3 to 4 percentage points above inflation. Now they are paying rates 7 to 10 percentage points above inflation. These rates are far too high to allow many small businesses to make a strong comeback necessary for the economic recovery.

I believe that minority small businesses, the primary sources of jobs, can lead the way in human capital development and revitalizing America by providing permanent jobs and by increasing productivity.

This is why I have introduced H.R. 2132. It will provide small and minority businesses the chance to create jobs and provide the means for training new employees for these jobs. To accomplish these initiatives, we must begin the process of restructuring SBA programs such as the direct loan and guaranteed business lending, pollution control financing, surety bond guarantees, and the investment company programs, and of directing this assistance where it is most needed.

Last week in Raleigh the subcommittee conducted field hearings on job creation and employee training. During this hearing, Gov. James Hunt and other small minority business people in the State testified.

The subcommittee heard an overwhelming endorsement for the continued support for small businesses in their role as chief job creators in our economy. Witnesses also endorsed the job training for small business employees as a means to increase permanent employment and productivity.

This morning we will receive testimony from associations representing small businesses in their varied capacities and we will also hear from our distinguished member of this committee, Hon. Andy Ireland.

Congressman Smith, do you have an opening statement you'd like to make?

OPENING STATEMENT OF HON. NEAL SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. **Smith** of Iowa. First, I want to commend the chairman for holding these hearings.

Second, I think there is nothing more important right now other than perhaps some management assistance and in getting some equity capital for small business so that they don't have to pay a fixed interest rate on a loan. They just can't afford to pay fixed interest rates while they are trying to get started. And we need to pay more attention, as the chairman has indicated, on helping them get started without having fixed interest costs to pay.

Mr. **Mitchell**. Thank you very much.

Congressman Ireland.

OPENING STATEMENT OF HON. ANDY IRELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. **Ireland**. Mr. Chairman, it's a pleasure to be here with you and Congressman Smith and submit some testimony.

For the past several years, my Subcommittee on Export Opportunities and Special Small Business Problems had been interested in export promotion for small businesses. Ninety-two percent of all American firms sell only in the United States, while 93 percent of all the world's population is outside the United States.

Small firms are very often reluctant to explore the foreign markets as a source of additional sales. The reluctance stems from not knowing where to find out which companies want to buy things that they produce. They fear the mechanics of selling, shipping, and particularly the mechanics of getting paid in foreign markets.

They do not know how to go about getting assistance or consolidating the vast amount of information that is available to them.

My subcommittee has been looking for ways to help small business owners increase their export opportunities and improve their access to the world marketplace. One important thing that we have seen is the success that many of our State and local governments have had in their efforts to get small business people into the exporting market. I think we at the Federal level should do all that we can to encourage the continuation of these kinds of programs.

It is because of this that I have suggested section 6 of H.R. 2132 to amend the Small Business Act. I have asked for $5 million to be added to the Small Business Administration's 1984 budget to be used specifically for export promotion. This money would be made available in grant form to any State or local government or qualified exporting group to be used in one of the following ways:

(1) To pay booth fees at foreign trade shows for American small business people; or

(2) To pay expenses to get American small business people to foreign trade shows; or

(3) To set up trade shows here in America and to bring foreign representatives to these trade shows.

Mr. Chairman, as you know, there is support from both sides of the aisle for this type of initiative. I also would like to submit for the record a statement by the U.S. Chamber of Commerce in support of such a program. And finally, I would submit a letter from the Governors of two of the country's leading States in exporting and export promotion—Hon. Bob Graham, Governor of Florida, and Hon. Michael Dukakis, Governor of Massachusetts.

I feel this is just a step in the right direction to help our small business people get more involved in the exporting market. More involvement in the exporting market will certainly get more jobs for America's people.

In addition to those two letters and the statement from the Chamber I have some excerpts from testimony we've received at the subcommittee that I would like to add to your record.

Mr. MITCHELL. Without objection, all of those addenda will be added.

Mr. IRELAND. Thank you.

[Mr. Ireland's additional opening statement follows:]

ADDITIONAL OPENING STATEMENT OF HON. ANDY IRELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman and members of the Subcommittee, in addition to the prepared remarks just delivered by me I would like to submit some brief excerpts from testimony in our Committee which quite vividly portray the situation small business is up against in the export arena.

Mr. Evan Werling, a member of the Export Task Force of the Small Business Council of the United States Chamber of Commerce before our Tax Subcommittee on April 14, 1983:

"Many small firms that have explored exporting opportunities find that the banking community is not attuned to small business needs.

"Smaller firms have difficulty obtaining competitive financing and frequently encounter delays in processing letters of credit.

"Recently authorized loan guarantee, discount loan and medium-term credit programs established in the Export-Import Bank and Small Business Administration are a positive step forward. However, unless Eximbank medium-term programs are made fully competitive, on a consistent basis with the programs supported by the governments of our foreign trade competitors, small business will not be able to assume the risk of allocating sigificant resources and management effort toward development of the export market. Every effort should be made to see that these programs are well-publicized and easily accessible. Hopefully, as the demand for small business export financing grows, more financial institutions will begin to tailor their services to ths growing and increasingly important market."

Mr. Peter P. Genero, Senior Development Representative, Office of Latin American Trade. Florida Department of Commerce, before my Subcommittee in Sarasota, Florida, February 18, 1980:

"In order to make it tomorrow, we must start moving today. The American businessman needs assistance. To be able to understand why he still languishes in the domestic market, let me examine what he has available to him to educate him to the bountiful rewards of exporting.

First, he has lists that he can buy. Lists of companies that either manufacture, distribute, or retail his widget type of product. Or he can use the Agent Distributor Service, whereby the commercial attache in overseas embassies will try to supply the U.S. businessman with a list of companies that might express interest in selling his type of widget. Another way he might find prospects, is by using the trade opportunity program, whereby overseas firms are interested in hearing from people who make widget-type products.

In capsule form this is the total export assistance program of the U.S. Department of Commerce. It is a terrific program of names and addresses. The United States in its export assistance program says to business, 'Here are the names and addresses of companies that are interested in or sell your type of product. Go get 'em!' No one is there to tell him how to approach the overseas buyer. Should he ask for a letter of credit, sight draft, 90 days, 120 days? Does he need to supply advertising materials or assistance? Are the customers technologically qualified to install his product? How do they sell his product to the end user, plus 1,001 other questions that are likely to crop up. Each overseas market can be different, one from the other, and is definitely not a mirror image of the United States way of doing business. Nor are each country's customs the same . . . .

As a matter of fact Frank Weild, the former chief for International Trade Administration, thought he was doing something real significant when he was telling us about how he was promoting small business. In his speech in Chicago he went on and on how he was helping small business to export. Then he went on to say that 'Our best business potential in foreign countries are international telecommunications equipment, computers, and jet airplanes.' That's where his mind was. He evidently was not aware that jet airplanes are not what the small business people are out there making and selling.

Hon. Thomas P. O'Neill III, Lieutenant Governor of Massachusetts, Boston, Massachusetts, April 28, 1980:

"The promotion of U.S. exports is a serious national, regional, and state concern; one directly related to the continuing improvement of the standard of living of all Americans. One of every six manufacturing jobs in Massachusetts, for example, is currently producing for markets overseas. The growth of U.S. exports, however, has lagged far behind the unprecedented growth of imports, leading to staggering trade deficits of $29 billion and $28 billion in 1978 and 1979 respectively. The reasons for such a shift in the international economic balance are numerous and varied; an undervalued dollar; a decline in the U.S. manufacturing base and real growth in U.S. productivity; dependence on foreign oil supplies which are susceptible to the pricing and supply decisions of a volatile cartel; and strong competition from European, East Asian and developing nations. Although we remain the strongest of nations economically, we have become more dependent on the raw materials and natural resources of other nations, leaving us sorely sensitive to the economic policies of both stable and unstable regions. If this past decade has taught us anything, it is that the domestic economy of the United States is inextricably linked to the international economy over which we possess a diminishing influence."

Mr. Thomas Moorhouse, Founder, Trans-Tech Corporation, Eden Prairie, Minnesota, in Rochester, Minnesota, on May 17, 1980:

"There are, however, two important factors that are being overlooked in the process to encourage small- and medium-sized businesses to develop export markets.

These are, one, initial financial risk; and, two, personal contact with buying decisionmakers. These elements are critically important to nearly all small businesses entering the export field.

The financial risk associated with not being successful in capturing the "initial" order that will permit the recovery of a substantial portion of the selling costs, is greater than the business can accept.

In exports, as in domestic selling, the importance of personal contacts with the buying decisionmakers cannot be overestimated. Yet, the small businessman does not want to commit the necessary funds to perform the required market research, and travel to the foreign country to establish a sales relationship and rapport with his buyers.

So, he is caught between the desire to export on the one hand, and the inability to accept the financial risk required to develop the necessary personal contacts on the other . . . .

It has been our experience that companies with sales in excess of $15-$20 million prefer to develop their own in-house export capability. Companies with revenues less than about $10 million tend not to pursue exporting."

Mr. James A. Brettell, Executive Vice-President, Libby Welding Co., Inc., in Independence, Missouri, on October 27, 1979:

"Financing arrangements are extremely difficult in dealing with high-value exports. Most small businesses are not equipped to handle high-dollar-value sales where the entire load of financing has to be supported by the producing company. Many producers of high-value, specialized components, such as turbine engines and high-speed generators, require advance payments before they will even accept our order. This results in a requirement for an inordinate amount of working capital. There are instances in which the purchasing country will provide advance payments for working capital, to the small business producers. However, they insist, in exchange for advance payments, that they receive an unconditional letter of guarantee for an equal amount of money. This document has two salient features, both of which create extremely risky situations to small business.

First, an unconditional letter of guarantee requires that we establish a line of credit equal to the face amount of the letter of guarantee, in favor of the country furnishing the advance payment. Now, obviously, if we could establish a line of credit equal to that amount of money we wouldn't need the advance payment in the first place. We could borrow the money at the bank and produce the equipment on that loan.

Second, the unconditional letter of guarantee is revocable at the whim of the foreign country. That is, being an unconditional letter of guarantee, the foreign country involved needs no reason to withdraw the money. They can present their demands to the bank, withdraw the money represented by the letter of guarantee, at any time, for any reason or for no reason at all. We would have no way of knowing until after the fact that the line of credit we established has been recalled by the foreign country. In the meantime we have a tremendous amount of inventory in process which we have no cash to complete. If small businesses are to do a significant amount of export business, then, we must have some reasonable way to finance the material being procured."

Ms. Carol Martel, Director, International Department, Atlanta Chamber of Commerce in Washington, D.C. on September 21, 1982:

"The basic problem is that our trading partners often subsidize export financing. In third country markets, this has often meant that United States' exporters have lost out on sales to foreign bidders who could underbid them due to such subsidized financing. Even in the United States' own domestic market, United States companies have been losing substantial business with an alarming frequency to foreign bidders who have employed subsidized financing. The recent railway passenger car case in New York City, involving financing subsidized by the Canadian government, was a rather vivid example of this . . . .

Georgia's agricultural industry has been particularly hard hit by competition from subsidized goods in third country markets. We have found that the stiffest subsidized competition comes from the French poultry industry competing for sales in third world markets. The poultry industry estimates that, for the first quarter of 1982, total exports decreased by 25 percent. For Georgia, on a projected yearly basis, this would mean the loss of approximately 2 million payroll dollars, and the loss of about $860,000 in revenue for small family farmers. Sources in the Georgia poultry industry estimate that if such foreign subsidized competition in third country markets is permitted to continue, the state's export poultry industry will be totally eliminated by 1988."

Mr. John Gornall, Chairman, Subcommittee of the International Trade Task Force, Atlanta, Georgia in Washington, D.C. on September 21, 1982:

"On the financing side, I think it would be fair for us to say that when you get right down to it, the Export-Import Bank in the United States really isn't in the business of financing small business. There is a great deal of trickle-down. That is, when Boeing gets a contract it has a lot of suppliers, as Boeing points out to us, a lot of suppliers in Georgia, notwithstanding a large Lockheed plant there.

But the bottom line is if you are a small business and you want financing, we basically tell clients not to go to the Eximbank because that is not where they are going to get it. The Eximbank is not in the business of financing small business. I think that is a fair statement and I think a later speaker will give you some specifics on that."

Mr. **Mitchell**. Let me compliment you. I have wondered a long, long time, Andy, about our inability of small businesses to get into exporting. We've just been derelict really, I think, in the Congress by not having done what you propose to do. A little guy can't go over to one of the African states or some other place. He just doesn't have the money.

Big corporations can send their people over there for 3 months. We can't even get there. And I just think it's a tremendously exciting proposal that you have developed, and it has my full support. If this works properly, if we can get it moving and maybe even expand it a little more, maybe we can begin to do something with our balance-of-trade deficit that has just remained almost constant. So I congratulate you.

Mr. **Ireland**. Thank you.

Mr. **Mitchell**. Mr. Smith?

Mr. **Smith** of Iowa. Well, I want to congratulate the gentleman from Florida. Twenty years ago, I might say, Iowa exported almost nothing. Today, Iowa exports more per capita than any other State in the United States. And it's almost entirely by small businesses. It has been a long hard pull, and a number of things that I won't try to relate here that have caused it. But we know now that our potential for export is even greater than it used to be. And we're not taking advantage of it.

So certainly promoting exports, when we're going to have a deficit this year in the balance of payments of probably $70 to $80 billion and the deficit will last at least 1 year past recovery from our recession, then we need to do all we can to promote exports.

Mr. **Ireland**. I certainly agree. Thank you for your comment.

Mr. **Mitchell**. Mr. Daub.

Mr. **Daub**. I want to compliment my good friend and colleague. I am particularly interested in the additional language in the bill because I have quite a past small business background in the area of import and export. First, as a private practitioner in the law practice I did a good deal of international trade law work from that great Midwestern seaport called Omaha, Nebr. And indeed am familiar with what our colleague Mr. Smith said about the terrific potential that's being realized, but indeed a struggle to do so, in the State of Iowa, our neighbor to the east.

The same is true in Nebraska, particularly as it relates to agriculture. And in addition to that, I had my own small business that imported. I am a member of a board of directors of a small farm implement business in Nebraska that's trying to export. Our biggest problem, Mr. Chairman, is our inability to compete in the trade show arena, particularly in Europe and in countries like Australia where there is a terrific opportunity for us to export agricultural products, machinery, and equipment. And indeed, the thing that keeps us out of most of the trade shows is that as a very small business we can't afford the $1,500, $2,000, $5,000 fees on top of freighting the materials, getting the slide show thing organized, then sending one person over a month ahead. Because indeed, if you just go to the show you're not going to get anywhere. You've got to have somebody over there for a little while to prospect and develop attention and interest in your booth, at least from the American Consulate's Commercial Attaché and get some attention.

When you are a small business this is very difficult.

So I want to commend you for your commitment, for the authorship of the language that's added, and I assume your language begins at line 24 on page 16.

Mr. IRELAND. Right.

Mr. DAUB. Is that the part that's yours?

And do you think that the language of this act empowers SBA now to do what you outlined?

Mr. IRELAND. We think it does.

Mr. DAUB. Would you believe that SBA may have too much discretion under the program? Do you see any problem at all with that?

Mr. IRELAND. No. I guess I would have to come down as a firm believer that our problems don't arise when SBA has too much discretion, it comes when SBA doesn't have enough. When they don't have enough they don't do anything. When they've got too much at least we can prod them to do what we ask them to do.

Mr. DAUB. Well, I think the gentleman has intellectually created the right kind of language to accomplish his objective. And indeed, I will do all I can to support the idea that you are advancing here this morning.

Mr. IRELAND. Thank you.

Mr. DAUB. Thank you.

Mr. MITCHELL. Thank you very much. Mr. Ireland.

Mr. IRELAND. Mr. Chairman, if I may take a moment since we are into this subject, and digress only from the jurisdiction of this bill that's before us. I am anxious to call your attention to a bill that can have a substantial amount of impact on small business. The thrust of it has arisen from our Small Business Subcommittee and our full committee, and we should, I think, take due note of it and some pride. The jurisdiction is in the Banking Committee for the rechartering of the Export-Import Bank.

I recently filed H.R. 2608, which in addition to increasing the competitiveness ratewise of the Export-Import Bank, which of course is a benefit to both small business and large business, mandates that 20 percent of that bank's activity be directed toward small business.

Right now, despite committee or report language that they should be in the small business business, the bank does only about 3 percent of its business with small business. A 20-percent mandate would not use all their funds. The bank does not use their funds at the present time.

In many of our hearings here we have heard exporters step up, small business exporters, and say they can't either get competitive rates or attention. I would call this bill to your attention because it will be before the Banking Subcommittee on Wednesday next. And I think it deserves our attention and, hopefully, our support. It falls in behind everything that we're talking about today. Unfortunately, the rechartering of the Export-Import Bank isn't under our bailiwick or we probably would have all done it a long time before.

Mr. MITCHELL. Thank you for that information. As a member of the Banking Committee I've had my fights with the Export-Import Bank.

Mr. IRELAND. Right.

Mr. MITCHELL. Based on what you've said, I certainly would be inclined to support this legislation.

Mr. IRELAND. I have sent all of the material about it to each one of you but I wanted this opportunity to bring it to your attention. It's a marvelous opportunity for us.

Mr. MITCHELL. It looks like it's got my support as a member of the Banking Committee, but I cannot say the same for the International Monetary Fund.

Mr. IRELAND. Oh, well,——

Mr. MITCHELL. I'm still thinking on that one.

Mr. IRELAND [continuing]. We'll attack that at another session.

Mr. MITCHELL. Thank you very much, Congressman Ireland.

Mr. IRELAND. Thank you.

Mr. MITCHELL. Our next witness is Mr. Bruce Hahn, manager of government affairs for the National Tooling & Machining Association.

Mr. Hahn, welcome to the hearing. Thank you for taking time out from a busy schedule to be with us.

Mr. HAHN. Thank you.

Mr. MITCHELL. All of the members have received a full copy of the testimony. And if you so desire, you can just go through and give the salient points in your testimony. I ask unanimous consent that the entire testimony be submitted for the record.

TESTIMONY OF BRUCE HAHN, MANAGER, GOVERNMENT AFFAIRS, NATIONAL TOOLING & MACHINING ASSOCIATION, FORT WASHINGTON, MD.

Mr. HAHN. Thank you very much, Mr. Chairman. I very much appreciate it.

I think in light of the exchange that you just had, it might be useful for me as a representative of a small business group to add my support for the provision under which SBA can make grants to small businesses. I know what Mr. Daub is talking about. My parents and my family are small farmers outside of Omaha in the little town of Polk, Nebr. I know how difficult it is for them to export.

One suggestion that we would make—and we think these grants are an excellent idea because our members who have small businesses are seeing foreign small businesses getting into their markets, and we would very much like to get out into other markets—is that perhaps you consider expanding the eligibility not only for individual companies but for associations to be able to do trade fairs for their members. I think that can be done more economically.

One of the problems that all small businesses have because of their small size—and our members are typically 20 or 30 employees—is lack of marketing specialization and sophistication. If you were to be able to centralize the marketing research, the logistical efforts, I think it could be much more economical and you could serve a large number of small businesses and increase their marketing abilities at the same time. That would be the only suggestion we would make on that.

Let me get back into some of my other comments.

We believe that many of the proposals contained in H.R. 2132 will do much to enable small business to participate in economic recovery. Specifically, we support your recognition, Mr. Chairman, of the importance of training to small businesses. Section 5 of the legislation authorizes a new program under which SBA may make grants to small businesses of up to $2,500 per employee or potential employee who is given training. Such a program would be of great benefit to small businesses with highly skilled labor forces.

Training the highly skilled is a very expensive proposition. In our industry, a trainee may spend 4 years in an apprenticeship program before reaching journeyman status. In addition, investment in equipment amounts to up to $60,000 per employee. Senior journeymen use many hours of their highly productive time, at great cost to the company, in assisting the development of apprentices and trainees. Historically, our industry, and other industries in the highly-skilled trades, have suffered chronic shortages of skilled labor. While the recent recession has temporarily mitigated the problem, such shortages pose a serious threat to the economic growth of the entire country during a recovery cycle, which from the news that I'm getting from our shops is beginning at this point. We would also suggest that industry-based groups be made eligible for the training grants so that industry-based training programs could also receive funding.

While the subcommittee and chairman should be lauded for their recognition of the problem, we would like to suggest that you consider an alternative to section 5 of the bill. On January 25, Congresswoman Claudine Schneider introduced H.R. 897, the Job Incentive Act of 1983. This legislation provides tax credits for training. Section 3 specifically recognizes the high cost of training the skilled employee and allows a maximum credit of 50 percent of the first year's wages and 30 percent of the second year's wages.

The advantages of this approach are threefold:

First, tax credits are automatic and need not require the cost and time associated with loan approvals.

Second, an employer will be aware that he or she will have the opportunity to use the credits at the point at which the decision is being made to hire new employees. This assurance should increase the creation of new jobs.

Third, this legislation recognizes the differential in cost between training the highly skilled versus training the semiskilled. We believe that previous training tax credit incentives, such as the targeted jobs tax credit, have been relatively ineffective as a stimulus in creating new high skill jobs because of the relative insignificance of the total cost of training the highly skilled. Yet, most of the shortages of labor in this country exist at the higher levels of skills.

Therefore, there should be a greater incentive to train those whose training costs are highest. Not only are the highly skilled crucial to the defense industrial base, but they and their employers will also generate tax revenues to quickly offset the incentives we suggest. Many of the journeymen in our industry earn in excess of $30,000 per year. A study of the provisions of section 3 of H.R. 897 performed by Data Resources, Inc. in April of 1982 clearly demonstrated that the personal income taxes paid on additional wages and salaries would more than offset the loss of corporate tax revenues caused by the tax credit.

We would also like to commend for your consideration H.R. 402, sponsored by Congressman Neal Smith. This legislation authorizes SBA to buy stock in small business concerns. In doing so, this would provide an additional source of capital which would lead to the creation of thousands of new jobs. As we all know, small businesses create many more new jobs than do large businesses. A $500,000 capital infusion into a small business is more likely to create ten new jobs, whereas the same infusion into a major corporation is more likely to result in new machinery that's going to eliminate jobs.

We are happy to see funding in H.R. 860 to continue a data base on small business. Such a data base, once completed, will enable the small business community, the House and Senate Small Business Committees, and the Small Business Administration to not only track the economic health of the various sectors of the small business community, but to accurately assess its contribution to the national economy. Such information will prove invaluable in measuring changes and shifts within this important economic sector and its many important subsectors. It will be of great assistance to this subcommittee in evaluating the impact of Federal programs.

I very much appreciate the time to talk with you today. This concludes my remarks. I will be more than happy to answer any questions.

[Mr. Hardman's prepared statement with attachment follows:]

PREPARED STATEMENT OF WILLIAM E. HARDMAN, EXECUTIVE VICE PRESIDENT, NATIONAL TOOLING & MACHINING ASSOCIATION

Thank you very much for the opportunity to present our views on small business job creation legislation and on omnibus legislation relating to SBA's authorization.

The National Tooling & Machining Association represents the tool, die, and precision machining industry. The industry is composed of 14,000 independent contracting manufacturing plants, almost all of which are small business concerns employing approximately 300,000 highly skilled workers. These companies build special tools, dies, jigs, fixtures, molds, gauges, special machines (automation, robotics, and production lines), and precision machined parts or components. They use a wide variety of equipment and processes, including most machine tools from the simplest lathe to the most complex numerically controlled machining center, electrical discharge machining, electrical-chemical milling, and electron-bean welding. They commonly achieve tolerances of one-ten-thousandth of an inch and regularly use computers as an aid in design, machining, and control of operations.

We believe that many of the proposals contained in H.R. 2132 will do much to enable small business to participate in economic recovery. Specifically, we support the chairman's recognition of the importance of training to small businesses. Section 5 of the legislation authorizes a new program under which SBA may make grants to small businesses of up to $2,500 per employee or potential employee who is given training. Such a program would be of great benefit to small businesses with highly skilled labor forces. Training the highly skilled is an expensive proposition. In our industry, a trainee may spend 4 years in an apprenticeship program before reaching journeyman status. In addition, investment in equipment amounts to up to $60,000 per employee. Senior journeymen use many hours of their highly productive time, at great cost to the company, in assisting the development of apprentices and trainees. Historically, our industry, and other industries with highly skilled trades, have suffered chronic shortages of skilled labor. While the recent recession has temporarily mitigated the problem, such shortages pose a serious threat to the economic growth of the entire country during a recovery cycle.

While the subcommittee and the chairman should be lauded for their recognition of the problem, we would like to suggest that you consider an alternative to section 5 of the bill. On January 25, 1983, Congresswoman Claudine Schneider introduced

H.R. 897, the Job Incentive Act of 1983. This legislation provides tax credits for training. Section 3 specifically recognizes the high cost of training the skilled employee and allows a maximum tax credit of 50 percent of first year's wages and 30 percent of second year's wages. The advantages of this approach are threefold. First, tax credits are automatic and need not require the cost and time associated with loan approvals. Secondly, an employer will be aware that he/she will have the opportunity to use the credits at the point at which the decision is being made to hire new employees. This assurance should increase the creation of new jobs. Thirdly, this legislation recognizes the differential in cost between training the highly skilled versus training the semiskilled or unskilled. We believe that previous training tax credit incentives, such as the targeted jobs tax credit, have been ineffective as a stimulus because of their relative insignificance to the total cost of training the highly skilled. Yet, most of the shortages of labor in this country exist at the higher levels of skills. Therefore, there should be a greater incentive for training those whose training costs are highest. Not only are the highly skilled crucial to the defense industrial base, but they and their employers will also generate tax revenues to quickly offset the incentives we suggest. Many of the journeymen in our industry earn in excess of $30,000 per year. A study of the provisions of section 3 of H.R. 897 performed by Data Resources, Inc. in April 1982 clearly demonstrated that personal income taxes paid on additional wages and salaries would more than offset the loss of corporate tax revenues caused by the tax credit.

In addition, we appreciate the subcommittee authorizing a new program under which SBA may make grants to small businesses to cover the costs of international trade fairs for the benefit of small businesses having export potential. Our members have begun to look at the international market. Such trade fairs may greatly increase the ability of small companies to participate in international trade. Grants will speed up the process. We would suggest that trade associations representing the interests of small business be made eligible for such grants. Because of the small size of the member companies, the trade associations play a very vital role in export assistance, training, and many other services. Participation by trade associations would add impetus to the job creation idea.

We are also happy to see funding in H.R. 860 to continue a data base on small business. Such a data base, once completed, will enable the small business community, the House and Senate Small Business Committees, and the Small Business Administration to not only track the economic health of the various sectors of the small business community, but to accurately assess its contribution to the national economy. Such information will prove invaluable in measuring changes and shifts within this important economic sector and its many important subsectors and will be of great assistance to this subcommittee in evaluating the impact of Federal programs.

We very much appreciate the time to talk with you today. This concludes my formal remarks. We will be more than happy to answer any questions you might have.

DRI Data Resources, Inc.

ECONOMIC ANALYSIS OF THE IMPACTS OF TAX CREDITS FOR WAGES PAID TO APPRENTICE TOOLING AND MACHINERY WORKERS

Prepared for
The National Tooling & Machining Association

Prepared by
Data Resources, Inc.

April 1982

The National Tooling and Machining Association has recently supported legislation (S. 1813 and H.R. 3752) to address the shortage of skilled labor affecting its members. This shortage has arisen due primarily to three factors:

- the high cost of training which the industry structure is unable to support,
- the limited pool of eligible applicants, and
- the inadequacy of existing training programs.

The proposed legislation would alleviate this problem by providing tax credits for wages paid to eligible apprentices in an industry determined to be a "labor shortage business or industry."

At the industry's request, Data Resources, Inc. has undertaken an analysis of this legislative proposal. The purpose of the analysis was first to determine the net revenue loss to the U.S. Treasury and second to determine the probable impact of the proposal on the U.S. economy. The analysis gives full consideration to the rapid increase in defense spending proposed in the FY83 budget and the special demands this places on the members of the Association and the workers in the industry.

The underlying assumptions concerning the number of people trained and the net job creation were supplied by the Association. Forecasts of wage increases were made by DRI, combining its own forecasts with historical wage and employment data supplied by the Association. The dynamic revenue loss estimates were derived using the quarterly DRI models of the U.S. economy.

In summary, this analysis reached the following conclusions:

- The static revenue loss is estimated at $125 million in the first year, rising to $420 million by the tenth year.
- The increased wage and salary income generated by this proposal would rise to $7.8 billion by the tenth year of the program and would total $31.6 billion from 1982 to 1991.
- The personal income taxes paid on the additional wages and salaries would more than offset the loss of corporate tax revenues caused by the tax credit. By 1991, personal tax collections are estimated to be over $2 billion higher than they would otherwise have been.
- The combination of higher personal and social insurance tax collections reduces the budget deficit by several billion dollars in each of the last five years of the simulation period.
- In addition to the jobs created directly by the wage tax credit, the indirect impact of the additional wages on overall economic activity could be expected to add as many as 20,000 jobs by the end of the simulation period.
- The tax credit would have no measurable impact on the change in the overall price level.

- Of the over 2.5 million persons employed in metalworking occupations in 1981, nearly 7% were directly or indirectly supporting production for defense. Total demand for metalworkers is projected to grow to over 3 million by 1992, of which over 10% will be required to support defense needs.
- An absence of the tax credit could result in a shortfall in the supply of persons with metalworking skills amounting to 6.6% of demand by 1992. This shortfall can mean differences in production of more than 10% for some industries.

METHODOLOGY

The analysis described in this study was conducted in several discrete steps. The first step was to produce an estimate of the wages which would be paid to first and second year apprentices and an average wage paid to all workers in occupations requiring an apprenticeship. These forecasts were developed using annual survey data supplied by the Association.

Using the Association's information on those occupations requiring an apprenticeship, DRI first developed an average wage by weighting the wage for each occupation by the number of people employed in that occupation by year for the period 1972-1981. This data was then converted into an index and regressed using standard statistical technicques against the index of average hourly earnings for U.S. production workers (JAHEADJEA). The results, shown in Appendix Table I, produced a very satisfactory equation which could be used for forecasting.

Using the forecast of JAHEADJEA contained in DRI's TRENDLONG0482 general economic forecast and the regression equation developed above, a forecast for the average wage for tooling and machining workers was produced.

In a similar fashion, a forecasting equation was estimated for the average wage of first and second year apprentice workers. By making two assumptions, 1) that first and second year apprentice wages advance according to historical patterns within the apprentice structure and 2) that after completing the apprenticeship, wages move to the average level, one is able to generate all of the data necessary to make the static revenue loss estimates. Table I shows the forecast for the various wage levels.

The second step of the analysis was to estimate the static revenue loss associated with the tax credit. Using Association assumptions that a maximum of 20,000 workers would enter the eligble apprenticeship programs each year, that no apprentices would drop out, and that workers can expect to work an average of ten hours of overtime per week at 150% of the base wage rate, DRI developed estimates of the static revenue loss. The assumptions underlying this estimate were deliberately chosen to be very conservative so that they would yield a generous estimate of the tax loss. If fewer workers enter the program, if some workers drop out, or if the number of hours worked falls, then the revenue loss associated with the program would be correspondingly reduced.

Using the formula contained in the proposed legislation, 50% of the wages of first year apprentices and 30% of the wages of second year apprentices would be taken as a tax credit. Accordingly,

TABLE I

AVERAGE HOURLY WAGE FORECAST
(1982 to 1991)

	All Production Workers	Tool & Machine Workers	First Year Apprentices	Second Year Apprentices
1982	7.89	10.83	5.80	6.98
1983	8.45	11.62	6.20	7.48
1984	9.09	12.51	6.66	8.04
1985	9.78	13.49	7.17	8.66
1986	10.55	14.57	7.72	9.34
1987	11.39	15.75	8.33	10.08
1988	12.31	17.02	8.98	10.89
1989	13.29	18.40	9.69	11.76
1990	14.34	19.87	10.45	12.69
1991	15.46	21.45	11.26	13.68

$$E_{i,j} = (40)(52)(HE_{i,j}) + (10)(52)(1.5)(HE_{i,j})$$

and

$$TC_i = (.5)(E_{i,1}) + .3(E_{i,2})$$

where i = year of program ($i = 1, 2, 3, 4, \ldots 10$)
j = years apprentice has been in program ($j = 1, 2, 3, 4, \ldots 10$)
E = annual earnings per worker
HE = hourly wage
40 = hours per week
52 = weeks per year paid
10 = average overtime hours per week
1.5 = overtime pay factor
TC = tax credit per worker

Table 2 provides the estimates of the annual earnings for first and second year apprentices for each year and Table 3 shows the direct revenue loss associated with these earning estimates.

Because the tax credit is only applied to the first two years of apprenticeship, there is no revenue loss associated with years 3 through 10 of employment in the industry. The wages paid for these years represent a net addition to the economy-wide wage and salary disbursements. The total amount of wages paid is shown in Table 4.

The third phase of the analysis consisted of simulating the impact of the tax credit and wage accruals in the DRI Macroeconomic Model. In so doing, the full dynamic feedback effects of the total economy are captured. The results of this simulation exercise are summarized in Table 5. The simulation labeled "Baseline" represents the economic forecast without the proposed legislation; the simulation labeled "TOOL AND MACHINE" contains the proposed legislation. In both cases, the full five-year defense spending plan contained in the FY83 budget is implemented. As shown in this table, the results are generally quite positive. The proposed legislation would have a modest positive impact on the overall Gross National Product and would have a net positive revenue effect. More detailed results of the simulation are shown in Appendix Table 2.

While the numbers cited in Table 5 do not appear dramatic for the economy as a whole, they are nevertheless very significant for the tooling and machining industry. Workers in this industry, although relatively few in number, are critical to our economy. Given the growth in defense spending requested in the FY83 budget and the emphasis in that budget on increased hardware procurement, workers in this industry could form a critical bottleneck in our nation's ability to produce. Due to the long training requirements, if such a bottleneck is allowed to develop, it will not be possible to turn the situation around quickly.

The final phase of this analysis was to examine the demands for machining and tooling workers in the context of the defense budget request submitted for FY83. The object of this phase of the analysis was to identify the consequences to the overall economy and to the defense industries of allowing a shortage of these workers to develop. This final phase was conducted using DRI's detailed industrial production and employment models. These models include data and methodologies developed to analyze impacts of defense expenditures specifically.

TABLE 2

ANNUAL EARNINGS FOR FIRST AND SECOND YEAR APPRENTICES (1982 to 1991)

	Annual Earnings First Year Apprentices	Annual Earnings Second Year Apprentices
1982	12,516.40	16,141.84
1983	13,379.60	17,350.32
1984	14,372.28	18,688.28
1985	15,472.86	18,688.28
1986	16,659.76	20,155.72
1987	17,976.14	21,752.64
1988	19,378.84	23,500.62
1989	20,911.02	25,378.08
1990	22,511.10	27,385.02
1991	24,299.08	29,521.44

TABLE 3

DIRECT STATIC REVENUE LOSS
(1982 to 1991)

	Per Worker[1]	Per Year[2]
1982	6,258.20	125,160,000
1983	11,532.35	230,640,000
1984	12,391.24	247,820,000
1985	13,342.91	266,860,000
1986	14,376.60	287,530,000
1987	15,513.86	310,280,000
1988	16,739.61	334,790,000
1989	18,068.93	361,380,000
1990	19,491.06	389,820,000
1991	21,005.97	420,120,000

[1] Per worker loss calculated as 50% of first year apprentice salary plus 30% of second year apprentice salary.

[2] Per year loss calculated as per worker loss times 20,000 new workers per year with no dropouts.

TABLE 4

ADDITIONAL WAGES GENERATED
(1982 to 1991)

1982	250,320,000
1983	461,280,000
1984	895,470,000
1985	1,442,800,000
1986	2,184,400,000
1987	3,038,300,000
1988	4,016,500,000
1989	5,133,900,000
1990	6,399,800,000
1991	7,831,000,000

TABLE 5
COMPARISON OF TOOL&MACHINE AND BASELINE SCENARIO

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
REAL GNP (BILLIONS OF 72 $)										
TOOL&MACHINE................	1,490.740	1,549.096	1,617.939	1,692.919	1,761.833	1,822.962	1,892.660	1,959.461	2,015.505	2,078.653
BASELINE....................	1,490.695	1,548.942	1,617.667	1,692.491	1,761.237	1,822.187	1,891.896	1,958.406	2,014.248	2,077.289
DIFFERENCE..................	0.045	0.154	0.272	0.428	0.595	0.775	0.764	1.055	1.257	1.364
GNP (BILLIONS OF $)										
TOOL&MACHINE................	3,095.690	3,448.144	3,851.140	4,325.769	4,841.880	5,377.648	5,989.871	6,653.171	7,359.398	8,155.886
BASELINE....................	3,095.511	3,447.485	3,849.772	4,323.237	4,837.697	5,371.257	5,981.355	6,640.850	7,342.670	8,133.993
DIFFERENCE..................	0.179	0.660	1.368	2.532	4.183	6.391	8.516	12.321	16.728	21.893
REAL GNP (% CHANGE)										
TOOL&MACHINE................	-1.3	3.9	4.4	4.6	4.1	3.5	3.8	3.5	2.9	3.1
BASELINE....................	-1.3	3.9	4.4	4.6	4.1	3.5	3.8	3.5	2.9	3.1
DIFFERENCE..................	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN CONSUMER PRICES										
TOOL&MACHINE................	6.4	6.8	7.0	7.4	7.9	7.7	7.6	7.6	7.8	7.8
BASELINE....................	6.4	6.8	7.0	7.3	7.9	7.7	7.6	7.6	7.8	7.7
DIFFERENCE..................	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FEDERAL REVENUES										
TOOL&MACHINE................	621.486	669.247	743.388	858.558	967.349	1,085.020	1,221.484	1,371.849	1,547.292	1,713.836
BASELINE....................	621.433	669.070	743.036	857.908	966.313	1,083.482	1,219.542	1,368.990	1,543.343	1,708.701
DIFFERENCE..................	0.052	0.176	0.351	0.650	1.036	1.538	1.943	2.859	3.950	5.135

Forecasts of industrial production and employment were obtained from DRI's Defense Interindustry Forecasting System (DIFS) Input-Output Model. This model provided forecasts of the direct and indirect requirements for defense from individual industries, as well as forecasts of total production by each industry, given the macroeconomic projections discussed earlier. The provisions of the FY83 defense budget requests were explicitly included in these forecasts using detailed information on the distribution of direct purchases for defense from individual supplying industries.

Projections of industrial production were combined with forecasts of productivity growth in each industry to obtain estimates of sectoral employment totals. These estimates in turn were disaggregated into estimates of employment levels for individual occupation groups using the DIFS Occupation by Industry Model.

Using these projections, DRI was able to ascertain the extent to which individual industries are dependent upon persons with metalworking trades and how that dependency is likely to change over time. In addition, the forecasts provide insights into the extent to which proposed defense expenditures will impact upon industrial production and employment over the next ten years and the role of metalworking trades in supporting the growing defense requirements.

DRI found that in 1981 an estimated 2.5 million persons were employed in metalworking skills, making up 2.5% of all employed persons.* As can be seen in Table 6, the employment of persons with these skills is concentrated in the primary and fabricated metal products, machinery, and transportation equipment industries. The table also shows the percentage of total employment in each industry represented by metalworking skills. The total demand for labor with these skills is projected to increase at a rate of 1.5% per year and top 3 million persons by 1991. DRI estimates that 6.9%, or 177 thousand, of the employed metalworkers in 1981 were directly or indirectly supporting requirements for defense. The same industries listed in Table 6 are projected to play ever increasing roles in supporting defense requirements so that by 1992 an estimated 10.4%, or 316 thousand, metalworkers will be required for this support.

The impact of defense expenditures on the production and employment by primary employers of metalworkers is summarized in Table 7. (Detail for all industries may be found in Appendix Tables 3 and 4.) As can be seen in Table 7, the growth in total requirements (direct and indirect) for defense from each of these industries is projected to grow at rates significantly greater than the rates for each industry as a whole. As such, the percent of each industry's total production required to support defense needs will increase as much as 13 percentage points.

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*For purposes of this analysis, DRI has defined metalworking trades to include the following: blacksmiths, boilermakers, heat treaters and annealers, forge and hammer operators, job and die setters, machinists and apprentices, millwrights, metal molders and apprentices, tool and die makers and apprentices, drill press operators, furnace tenders, grinding machine operators, metal heaters, lathe milling machine operators, metal platers, other precision machine operators, solderers, welders, and cutters.

TABLE 6

INDUSTRIES MOST DEPENDENT ON METALWORKING SKILLS, 1981

INDUSTRY	NUMBER OF METALWORKERS (THOUSANDS)	PERCENT OF OCCUPATION	PERCENT OF INDUSTRY
METALWORKING MACH. & EQUIP.	141.06	5.52	36.75
FABRICATED METAL PRODUCTS	367.67	14.38	25.92
CONSTR. MINING & MAT. HAND. EQ.	84.21	3.29	24.14
PRIMARY FERROUS METALS	160.38	6.27	22.46
FARM & GARDEN MACHINERY	31.80	1.24	22.29
NONELECTRICAL MACHINERY NEC	287.21	11.23	22.03
SHIPBUILDING & REPAIRING	42.89	1.68	21.04
ENGINES & TURBINES	22.90	0.90	19.99
MOTOR VEHICLES & EQUIPMENT	166.15	6.50	18.13
PRIMARY NONFERROUS METALS	67.80	2.65	17.70
AIRCRAFT INCL. PARTS & EQUIP.	92.07	3.60	14.01
TRANSPORTATION EQUIPMENT NEC	22.05	0.86	13.70
ELECTRICAL MACH. & EQUIP.	201.48	7.88	10.31
SCIENTIFIC & CONTROL EQUIP.	22.35	0.87	9.90
ORDNANCE & ACCESSORIES	22.80	0.89	8.85
METAL ORES MINING	6.94	0.27	7.71
GLASS & GLASS PRODUCTS	11.63	0.45	6.48
MISC. MANUFACTURING NEC	25.24	0.99	6.48
INSTRUMENTS & MISC. EQUIP. NEC	19.28	0.75	5.65
STONE & CLAY PRODUCTS	22.63	0.88	5.21
ALL OTHER	738.94	28.89	0.84
TOTAL, ALL INDUSTRIES	2,557.47	100.00	2.60

SOURCE: DATA RESOURCES, INC.

TABLE 7

IMPACTS OF EXPENDITURES FOR DEFENSE ON PRIMARY EMPLOYERS OF METALWORKERS (BILLION 1972 DOLLARS EXCEPT AS NOTED)

INDUSTRY	PRODUCTION, 1981			PRODUCTION, 1992			PRODUCTION GROWTH (% PER YEAR)	
	DEFENSE	TOTAL	DEFENSE SHARE (%)	DEFENSE	TOTAL	DEFENSE SHARE (%)	DEFENSE	TOTAL
METALWORKING MACH. & EQUIP.	0.59	10.09	5.89	1.43	16.69	8.56	8.30	4.68
FABRICATED METAL PRODUCTS	1.83	51.02	3.58	4.28	79.61	5.38	8.06	4.13
CONSTR. MINING & MAT. HAND. EQ.	0.51	14.68	3.50	1.00	24.18	4.12	6.21	4.64
PRIMARY FERROUS METALS	1.80	35.13	5.12	3.65	47.91	7.62	6.65	2.86
FARM & GARDEN MACHINERY	0.04	7.26	0.59	0.09	10.20	0.91	7.26	3.14
NONELECTRICAL MACHINERY NEC	2.20	55.29	3.98	5.53	106.20	5.21	8.72	6.11
SHIPBUILDING & REPAIRING	2.37	6.01	39.49	4.49	9.85	45.54	5.96	4.59
ENGINES & TURBINES	0.30	5.78	5.20	0.66	8.64	7.65	7.41	3.71
MOTOR VEHICLES & EQUIPMENT	1.45	67.84	2.14	3.83	121.02	3.17	9.22	5.40
PRIMARY NONFERROUS METALS	1.77	28.06	6.29	4.58	46.75	9.79	9.05	4.75
AIRCRAFT INCL. PARTS & EQUIP.	9.65	26.87	35.93	23.29	52.91	44.01	8.33	6.35
TRANSPORTATION EQUIPMENT NEC	0.06	7.42	0.80	0.14	12.02	1.13	7.85	4.49
ELECTRICAL MACH. & EQUIP.	11.23	76.01	14.77	29.03	145.06	20.01	9.02	6.05
SCIENTIFIC & CONTROL EQUIP.	0.96	7.84	12.21	1.97	14.63	13.48	6.78	5.83
ORDNANCE & ACCESSORIES	5.65	8.85	63.84	14.10	18.50	76.18	8.67	6.94
METAL ORES MINING	0.16	3.46	4.59	0.34	4.59	7.31	7.02	2.58
GLASS & GLASS PRODUCTS	0.11	5.87	1.95	0.28	8.89	3.19	8.57	3.84
MISC. MANUFACTURING NEC	0.16	13.74	1.18	0.34	20.93	1.62	6.96	3.90
INSTRUMENTS & MISC. EQUIP. NEC	0.64	16.14	3.96	1.26	26.15	4.83	6.39	4.49
STONE & CLAY PRODUCTS	0.31	15.21	2.02	0.71	22.46	3.18	7.97	3.61

SOURCE: DATA RESOURCES, INC.

To analyze the impacts of a shortfall in the supply of skilled metalworkers, DRI used an interindustry (input-output) model with the same final demands (defense and other) as those from the macroeconomic forecasting model that were used in the above discussion, but with the production activity by each industry that employs metalworkers constrained at various levels. These constraints were satisfied by reducing each category of final demand on an industry-by-industry basis according to the contribution by each category of final demand to each constrained industry's total production.

Using the assumption of an accumulating shortfall of 20 thousand metalworkers per year without legislation to provide tax credits for industries employing these skills, DRI estimated that by 1992 the demand for metalworkers will exceed supply by 6.6%. On this basis, DRI constrained the production by each industry according to its relative dependence on metalworking skills. For example, the unconstrained forecast indicates that 9.45% of the persons employed by the ordnance industry will be metalworkers. Hence, the constraint on production by this industry was established as 100(1 - (.066 X .0945)) = 99.4 percent of the unconstrained estimate. This approach assumes no change in productivity as a whole by each industry and that constrained production levels can be met with smaller percentages of metalworkers within each industry's workforce.

In a second approach, DRI estimated the affects of a shortfall in the supply of metalworkers with the assumption that any industry employing persons with metalworking skills would be unable to accommodate the shortfall and would hence have its production constrained according to the available supply of metalworkers. This assumption results in a constraint of 93.4% (100 - 6.6) on unconstrained production in 1992 for almost all industries, as almost all employ at least a few metalworkers.

The impacts of these constraints on final demand from each industry and on industrial production by each industry are summarized in Table 8. In this table, industries are ranked according to percentage differences between the unconstrained estimates for 1992 and the estimates resulting from a prorated distribution of the supply shortfull.

Table 8 shows that the categories of final demand affected by a supply shortfall are most significant among those industries that are heavily dependent upon metalworking skills. There are, however, some notable exceptions, particularly final demands for new construction, paints and allied products, and food and kindred products. The lower final demand for new construction can be traced to shortfalls in the supply of building materials prompted by an inadequate supply of metalworking skills. The impacts on final demand for paints and allied products and for food and kindred products result from decreased availability of metal containers and processing equipment resulting from the labor supply constraints.

It should be noted that lower levels of final demand can result from decreased purchases of domestically produced goods, increased imports, or both. Nonetheless, the lower levels of final demand necessarily result in lower levels of production by all industries. With the labor demand/supply gap prorated across industries according to the dependence of each on metalworking skills, production is lower by as much as 2.5% in 1992. The industries most likely to be affected are those that manufacture machinery and equipment, and the mining industry.

The analysis of impacts with full constraints yields more substantial differences in production levels. Among the industries most affected by the less rigid constraints, the two mining industries, producers of screw machine products and stampings,

TABLE 8

INDUSTRIES MOST AFFECTED BY A SHORTFALL IN THE SUPPLY OF METALWORKERS, 1992 (BILLION 1972 DOLLARS)

RANK	INDUSTRY	UNCON-STRAINED	PRORATED SHORTFALL	FULL CONSTRAINT
	FINAL DEMAND			
1	METAL CONTAINERS	0.19	0.16	0.18
2	NONFERROUS METALS	1.20	1.11	1.15
3	FAB. STRUCTURAL METAL PRODUCTS	6.78	6.52	6.45
4	SCREW MACHINE PROD.&STAMPINGS	2.06	2.00	1.51
5	MATERIALS HANDLING MACH. & EQ.	4.36	4.23	4.08
6	CONSTR. & MINING MACHINERY	13.42	13.18	12.38
7	FARM & GARDEN MACHINERY	8.06	7.93	7.57
8	STONE & CLAY PRODUCTS	0.58	0.57	0.56
9	MISC. ELECTRICAL MACH. & EQ.	1.47	1.45	1.32
10	PAINTS & ALLIED PRODUCTS	0.54	0.54	0.41
11	ELECTRICAL MACHINERY	9.09	9.02	8.66
12	ENGINES & TURBINES	2.21	2.20	2.09
13	OTHER FAB. METAL PRODUCTS	6.24	6.20	5.97
14	NEW CONSTRUCTION	161.18	160.19	147.70
15	FOOD & KINDRED PRODUCTS	112.97	112.31	103.47
16	ELECTRIC LIGHTING & WIRING EQ.	2.22	2.20	2.02
17	OTHER TRANSPORTATION EQ.	17.78	17.68	16.37
18	HOUSEHOLD APPLIANCES	9.90	9.85	9.17
19	MOTOR VEHICLES & EQUIPMENT	77.12	76.73	72.51
20	MISC. NONELECTRICAL MACH.	0.74	0.74	0.44
	TOTAL PRODUCTION			
1	MATERIALS HANDLING MACH. & EQ.	6.02	5.87	5.62
2	CONSTR. & MINING MACHINERY	17.58	17.29	16.19
3	FAB. STRUCTURAL METAL PRODUCTS	25.78	25.39	23.94
4	FARM & GARDEN MACHINERY	9.92	9.77	9.30
5	IRON ORE MINING	1.52	1.50	1.33
6	NONFERROUS METAL MINING	3.06	3.03	2.80
7	NONFERROUS METALS	45.64	45.20	42.31
8	PRIMARY FERROUS METALS	45.26	44.86	41.50
9	SCREW MACHINE PROD.&STAMPINGS	17.54	17.39	15.91
10	METAL CONTAINERS	7.30	7.24	6.69
11	ENGINES & TURBINES	8.66	8.59	8.09
12	GENERAL INDUSTRY MACHINERY	15.06	14.95	13.91
13	ELECTRICAL MACHINERY	20.97	20.83	19.70
14	MISC. NONELECTRICAL MACH.	10.60	10.53	9.54
15	FORESTRY & FISHERY PRODUCTS	5.03	5.00	4.49
16	NEW CONSTRUCTION	161.18	160.19	147.70
17	MISC. ELECTRICAL MACH. & EQ.	6.24	6.20	5.78
18	STONE & CLAY PRODUCTS	22.37	22.24	20.64
19	OTHER FAB. METAL PRODUCTS	30.99	30.82	28.92
20	STONE&CLAY MINING & QUARRYING	5.25	5.22	4.62

SOURCE: DATA RESOURCES, INC.

manufacturers of miscellaneous nonelectrical machinery, and the forestry and fishery products industry are particularly affected by full constraints on their production capacity. The lower production in the last of these industries reflects the decline in new construction activity brought on by lower availability of fabricated metal building materials. The impact on the other industries can be traced more directly to shortfalls in the availability of metalworking skills. If all defense requirements are satisfied despite constraints on industry output, the impact on domestic production to satisfy private demand would be aggravated. This is particularly true for the ordnance and aircraft industries and for manufacturers of communications equipment. The private sector would have to turn to foreign producers to satisfy demands, thus worsening the U.S. trade balance.

APPENDIX

APPENDIX TABLE I
FORECASTING EQUATIONS

Average Tool & Machine Workers Salary

Annual (1972 to 1981) Ten Observations (One Omitted)
Dependent Variable: JAVGSAL=An Index of average hourly earnings for tool and machine workers
Dates of Omitted Data: 1981

	Coefficient	Standard Error	T-Statistic	Independent Variable
	-0.0253983	0.03952	-0.6426	CONSTANT
1)	0.771493	0.02069	37.29	JAHEADJEA

R-Bar Squared: 0.9943
Durbin-Watson Statistic: 2.1337
Standard Error of the Regression: 0.02264 Normalized: 0.01593

First Year Apprentices

Annual (1971 to 1981) Eleven Observations
Dependent Variable: JHEFIRST=Index of average hourly earning for first year apprentices

	Coefficient	Standard Error	T-Statistic	Independent Variable
	0.0431894	0.07053	0.6124	CONSTANT
1)	0.731523	0.03608	20.28	JAHEADJEA

R-Bar Squared: 0.9762
Durbin-Watson Statistic: 1.5880
Standard Error of the Regression: 0.05447 Normalized: 0.03799

Second Year Apprentices

Annual (1971 to 1981) Eleven Observations
Dependent Variable: JHESECOND=Index of average hourly earning for second year apprentices

	Coefficient	Standard Error	T-Statistic	Independent Variable
	0.00429325	0.05155	0.08328	CONSTANT
1)	0.742314	0.02637	28.15	JAHEADJEA

R-Bar Squared: 0.9875
Durbin-Watson Statistic: 1.3047
Standard Error of the Regression: 0.03981 Normalized: 0.02813

APPENDIX TABLE 2
FORECAST SUMMARY

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                 TUES  APR 20, 1982   2:41 PM
A = TOOL&MACHINE, based on TRENDLONG0482
B = BASELINE, based on TRENDLONG0482
D = A-B
% = D/B*100

     82       83       84       85       86       87       88       89       90       91

----------DRISUMMARY

--- Total Consumption
A 1998.1   2204.5   2436.0   2697.6   2996.6   3320.4   3683.5   4077.1   4491.4   4953.7
B 1998.0   2204.0   2435.2   2696.1   2994.2   3316.7   3678.7   4070.2   4482.2   4941.7
D    0.1      0.4      0.8      1.5      2.5      3.7      4.8      6.9      9.3     12.0
%    0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.2      0.2      0.2

--- Nonresidential Fixed Investment
A  332.9    369.1    429.9    497.4    574.5    659.2    750.6    848.3    950.8   1064.9
B  332.8    369.0    429.7    496.9    573.6    657.9    748.8    845.8    947.4   1060.4
D    0.0      0.1      0.3      0.5      0.8      1.3      1.8      2.5      3.5      4.6
%    0.0      0.0      0.1      0.1      0.1      0.2      0.2      0.3      0.4      0.4

--- Residential Fixed Investment
A  107.8    146.0    173.0    210.7    244.5    268.8    300.8    334.6    367.3    408.7
B  107.8    146.0    172.9    210.5    244.2    268.3    300.0    333.5    365.8    406.7
D    0.0      0.0      0.1      0.2      0.3      0.5      0.8      1.1      1.5      1.9
%    0.0      0.0      0.0      0.1      0.1      0.2      0.3      0.3      0.4      0.5

--- Inventory Investment
A   -3.1     18.0     31.4     44.8     53.1     58.0     67.7     75.2     76.4     83.2
B   -3.1     17.9     31.4     44.7     52.9     57.7     67.4     74.8     75.9     82.7
D    0.0      0.0      0.1      0.1      0.2      0.2      0.2      0.4      0.5      0.5
%    0.0      0.2      0.2      0.3      0.3      0.4      0.3      0.5      0.6      0.6

--- Net Exports
A   22.5     23.1     24.6     24.3     18.8      3.8     -7.7    -16.0    -15.8    -12.0
B   22.5     23.1     24.7     24.4     19.0      4.1     -7.4    -15.5    -15.3    -11.4
D    0.0      0.0     -0.1     -0.1     -0.2     -0.3     -0.3     -0.4     -0.5     -0.6
%   -0.1     -0.2     -0.3     -0.5     -0.9     -6.4      4.1      2.8      3.4      5.2

--- Federal Purchases
A  257.8    286.6    323.8    373.6    425.8    476.1    531.6    592.4    659.8    733.5
B  257.8    286.6    323.7    373.5    425.6    475.8    531.1    591.8    658.9    732.3
D    0.0      0.0      0.1      0.1      0.2      0.3      0.4      0.6      0.9      1.2
%    0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.2

--- State and Local Government Purchases
A  379.7    400.8    432.3    477.3    528.5    591.4    663.6    741.6    829.5    923.8
B  379.7    400.8    432.1    477.1    528.2    590.8    662.7    740.4    827.8    921.5
D    0.0      0.0      0.1      0.2      0.4      0.6      0.9      1.2      1.7      2.3
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.2      0.2      0.2

--- Gross National Product
A 3095.7   3448.1   3851.1   4325.8   4841.9   5377.6   5989.9   6653.2   7359.4   8155.9
B 3095.5   3447.5   3849.8   4323.2   4837.7   5371.3   5981.4   6640.9   7342.7   8134.0
D    0.2      0.7      1.4      2.5      4.2      6.4      8.5     12.3     16.7     21.9
%    0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.2      0.2      0.3
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                   TUES  APR 20, 1982   2:41 PM
A = TOOL&MACHINE, based on TRENDLONG0482
B = BASELINE, based on TRENDLONG0482
D = A-B
% = D/B*100

      82       83       84       85       86       87       88       89       90       91

--- Real GNP (1972 Dollars)
A 1490.7   1549.1   1617.9   1692.9   1761.8   1823.0   1892.7   1959.5   2015.5   2078.7
B 1490.7   1548.9   1617.7   1692.5   1761.2   1822.2   1891.9   1958.4   2014.2   2077.3
D    0.0      0.2      0.3      0.4      0.6      0.8      0.8      1.1      1.3      1.4
%    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1

--- Implicit Price Deflator
A  2.076    2.225    2.380    2.555    2.748    2.949    3.164    3.395    3.651    3.923
B  2.076    2.225    2.379    2.554    2.746    2.947    3.161    3.390    3.645    3.915
D  0.000    0.000    0.000    0.001    0.001    0.002    0.003    0.004    0.006    0.008
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.2      0.2

--- CPI--All Urban Consumers
A  2.897    3.095    3.312    3.555    3.837    4.132    4.446    4.783    5.158    5.559
B  2.897    3.094    3.311    3.554    3.835    4.129    4.441    4.777    5.150    5.548
D  0.000    0.000    0.001    0.001    0.002    0.003    0.004    0.006    0.008    0.011
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.2      0.2

--- Producer Price Index--Finished Goods
A  2.810    2.993    3.212    3.460    3.758    4.071    4.388    4.728    5.104    5.516
B  2.810    2.992    3.212    3.459    3.755    4.067    4.382    4.719    5.093    5.501
D  0.000    0.000    0.001    0.002    0.003    0.004    0.006    0.008    0.011    0.015
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.2      0.2      0.3

--- Compensation per Hour
A  1.551    1.670    1.810    1.976    2.150    2.344    2.561    2.800    3.078    3.371
B  1.551    1.670    1.809    1.974    2.148    2.342    2.557    2.795    3.070    3.361
D  0.000    0.000    0.001    0.001    0.002    0.003    0.004    0.005    0.007    0.010
%    0.0      0.0      0.0      0.1      0.1      0.1      0.2      0.2      0.2      0.3

--- Core Inflation
A    7.5      6.7      6.9      7.1      7.4      7.4      7.3      7.1      6.9      6.9
B    7.5      6.7      6.9      7.1      7.4      7.4      7.2      7.0      6.9      6.9
D    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0
%    0.0      0.0      0.1      0.1      0.2      0.3      0.4      0.4      0.5      0.6

--- Industrial Production (1967=1.000)
A  1.440    1.564    1.671    1.777    1.865    1.938    2.041    2.133    2.202    2.299
B  1.440    1.564    1.671    1.776    1.864    1.937    2.040    2.131    2.200    2.297
D  0.000    0.000    0.000    0.001    0.001    0.001    0.001    0.002    0.002    0.002
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1      0.1

--- Housing Starts (Millions of Units)
A  1.118    1.462    1.583    1.867    1.952    1.898    1.892    1.870    1.826    1.814
B  1.118    1.462    1.583    1.866    1.951    1.897    1.890    1.867    1.822    1.811
D  0.000    0.000    0.000    0.001    0.001    0.001    0.002    0.003    0.003    0.003
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.2      0.2      0.2
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                TUES  APR 20, 1982   2:41 PM
A = TOOL&MACHINE, based on TRENDLONG0482
B = BASELINE, based on TRENDLONG0482
D = A-B
% = D/B*100

      82        83        84        85        86        87        88        89        90        91

--- Retail Unit Car Sales (Millions of Units)
A     8.4       9.7      10.6      11.1      11.6      11.9      12.6      13.0      13.1      13.6
B     8.4       9.7      10.6      11.1      11.6      11.9      12.5      13.0      13.1      13.6
D     0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0
%     0.0       0.0       0.1       0.1       0.1       0.2       0.1       0.2       0.3       0.3

--- Unemployment Rate (%)
A     9.2       8.7       7.7       7.0       6.4       6.0       5.7       5.4       5.3       5.2
B     9.2       8.7       7.7       7.0       6.4       6.1       5.7       5.4       5.3       5.2
D     0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0
%     0.0       0.0      -0.1      -0.1      -0.2      -0.2      -0.2      -0.3      -0.3      -0.4

--- Federal Budget Surplus (NIA)
A -136.6    -142.8    -135.7    -114.7    -117.6    -116.3    -100.6     -77.5     -41.0     -24.8
B -136.6    -142.9    -136.0    -115.3    -118.5    -117.7    -102.3     -80.0     -44.5     -29.3
D     0.0       0.2       0.3       0.6       0.9       1.4       1.7       2.6       3.5       4.4
%     0.0      -0.1      -0.2      -0.5      -0.8      -1.2      -1.7      -3.2      -7.9     -15.2

--- Money Supply (M-1)
A   461.7     485.8     509.8     540.5     566.2     593.3     626.6     661.5     698.3     738.2
B   461.7     485.7     509.6     540.1     565.6     592.5     625.6     660.1     696.5     735.9
D     0.0       0.1       0.2       0.4       0.6       0.8       1.0       1.4       1.8       2.3
%     0.0       0.0       0.0       0.1       0.1       0.1       0.2       0.2       0.3       0.3

--- New AA Corporate Utility Rate (%)
A   15.07     14.03     12.83     12.38     12.72     12.91     12.91     12.85     12.76     12.67
B   15.07     14.03     12.82     12.37     12.71     12.89     12.89     12.83     12.74     12.63
D    0.00      0.00      0.00      0.01      0.01      0.02      0.02      0.02      0.03      0.03
%     0.0       0.0       0.0       0.1       0.1       0.1       0.2       0.2       0.2       0.3

--- New High-Grade Corporate Bond Rate
A   14.25     13.38     12.25     11.85     12.17     12.34     12.35     12.29     12.21     12.11
B   14.25     13.38     12.25     11.84     12.16     12.33     12.33     12.27     12.18     12.08
D    0.00      0.00      0.00      0.01      0.01      0.02      0.02      0.02      0.03      0.03
%     0.0       0.0       0.0       0.1       0.1       0.1       0.2       0.2       0.2       0.3

--- Federal Funds Rate
A   12.89     13.61     12.24     11.17     12.57     11.89     10.59      9.93      8.99      8.49
B   12.89     13.61     12.24     11.17     12.58     11.90     10.61      9.96      9.02      8.52
D    0.00      0.00      0.00      0.00     -0.01     -0.01     -0.02     -0.03     -0.03     -0.03
%     0.0       0.0       0.0       0.0       0.0      -0.1      -0.2      -0.3      -0.3      -0.4

--- Prime Rate
A   15.38     15.60     14.23     12.44     13.52     13.13     12.08     11.59     10.92     10.44
B   15.38     15.60     14.23     12.44     13.53     13.15     12.10     11.62     10.96     10.49
D    0.00      0.00      0.00     -0.01     -0.01     -0.02     -0.03     -0.04     -0.04     -0.05
%     0.0       0.0       0.0       0.0      -0.1      -0.1      -0.2      -0.3      -0.4      -0.4
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                 TUES  APR 20, 1982   2:41 PM
A = TOOL&MACHINE, based on TRENDLONG0482
B = BASELINE, based on TRENDLONG0482
D = A-B
% = D/B*100

     82        83        84        85        86        87        88        89        90        91

--- Personal Income
A 2586.0    2851.2    3161.1    3511.3    3909.5    4328.2    4789.5    5293.8    5819.4    6417.5
B 2585.7    2850.6    3159.9    3509.2    3906.2    4323.4    4783.3    5285.2    5807.9    6402.7
D    0.3       0.6       1.2       2.1       3.3       4.8       6.2       8.6      11.5      14.8
%    0.0       0.0       0.0       0.1       0.1       0.1       0.1       0.2       0.2       0.2

--- Real Disposable Income
A 1063.0    1109.0    1156.4    1199.0    1242.7    1280.3    1319.6    1358.9    1388.3    1425.5
B 1062.9    1108.9    1156.2    1198.7    1242.2    1279.8    1319.1    1358.3    1387.7    1424.9
D    0.1       0.1       0.2       0.3       0.4       0.5       0.5       0.5       0.6       0.6
%    0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.0

--- Saving Rate (%)
A    6.29      7.00      7.48      7.54      7.51      7.24      6.80      6.45      6.01      5.82
B    6.29      7.00      7.48      7.54      7.51      7.24      6.81      6.47      6.03      5.84
D    0.00      0.00      0.00      0.00      0.00     -0.01     -0.01     -0.01     -0.02     -0.02
%    0.0       0.0       0.0       0.0       0.0      -0.1      -0.1      -0.2      -0.3      -0.4

--- Profits Before Tax
A  186.1     239.8     286.4     326.4     354.4     392.4     447.6     508.8     538.5     607.3
B  186.3     239.9     286.6     326.5     354.5     392.4     447.6     508.5     538.0     606.5
D   -0.1      -0.1      -0.1      -0.1      -0.1       0.0       0.0       0.4       0.6       0.8
%   -0.1       0.0       0.0       0.0       0.0       0.0       0.0       0.1       0.1       0.1

--- Profits After Tax
A  127.3     163.4     195.9     227.0     248.0     275.4     313.4     355.2     378.2     425.0
B  127.4     163.4     196.0     227.0     248.0     275.3     313.4     354.8     377.6     424.3
D   -0.1       0.0      -0.1       0.0       0.0       0.1       0.1       0.3       0.5       0.7
%   -0.1       0.0       0.0       0.0       0.0       0.0       0.0       0.1       0.1       0.2

--- Real Gross National Product
A 1490.7    1549.1    1617.9    1692.9    1761.8    1823.0    1892.7    1959.5    2015.5    2078.7
B 1490.7    1548.9    1617.7    1692.5    1761.2    1822.2    1891.9    1958.4    2014.2    2077.3
D    0.0       0.2       0.3       0.4       0.6       0.8       0.8       1.1       1.3       1.4
%    0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.1       0.1       0.1

--- Real Final Sales
A 1492.1    1542.0    1606.3    1677.4    1745.0    1805.9    1874.1    1940.2    1997.2    2060.1
B 1492.1    1541.8    1606.1    1677.1    1744.4    1805.2    1873.3    1939.2    1996.0    2058.8
D    0.0       0.1       0.2       0.4       0.6       0.7       0.7       1.0       1.2       1.3
%    0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.1       0.1       0.1

--- Real Total Consumption
A  968.9    1003.2    1041.2    1078.9    1118.2    1155.3    1196.2    1236.3    1268.7    1305.2
B  968.9    1003.0    1041.1    1078.6    1117.8    1154.8    1195.7    1235.6    1268.0    1304.4
D    0.0       0.1       0.2       0.3       0.4       0.5       0.5       0.7       0.8       0.9
%    0.0       0.0       0.0       0.0       0.0       0.0       0.0       0.1       0.1       0.1
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                TUES  APR 20, 1982   2:41 PM
A = TOOL&MACHINE, based on TRENDLONG0482
B = BASELINE, based on TRENDLONG0482
D = A-B
% = D/B*100

      82       83       84       85       86       87       88       89       90       91

--- Real Nonresidential Fixed Investment
A  153.9    159.6    173.3    186.1    198.6    210.6    222.5    233.2    241.6    250.3
B  153.9    159.5    173.3    186.0    198.5    210.5    222.4    233.0    241.4    250.1
D    0.0      0.0      0.1      0.1      0.1      0.2      0.1      0.2      0.2      0.2
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1      0.1

--- Real Nonresidential Fixed Investment, Equipment
A  105.4    112.2    123.6    133.3    142.4    151.0    160.3    168.3    174.6    181.3
B  105.4    112.2    123.6    133.3    142.3    150.9    160.2    168.1    174.4    181.1
D    0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1      0.1

--- Real Nonresidential Fixed Investment, Construction
A   48.5     47.4     49.7     52.7     56.2     59.5     62.2     64.9     67.1     69.1
B   48.5     47.4     49.7     52.7     56.1     59.5     62.1     64.8     67.0     69.0
D    0.0      0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1      0.1

--- Real Residential Fixed Investment
A   42.9     53.2     58.1     64.5     68.1     68.5     70.2     71.6     71.8     73.1
B   42.9     53.2     58.1     64.5     68.0     68.4     70.1     71.5     71.7     73.0
D    0.0      0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1

--- Real Exports
A  156.1    164.7    174.3    183.4    192.3    200.5    209.5    219.0    229.8    241.8
B  156.1    164.7    174.3    183.4    192.2    200.4    209.5    219.0    229.7    241.7
D    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0

--- Real Imports
A  120.3    128.1    135.3    143.0    152.0    160.8    169.1    177.3    184.5    191.9
B  120.3    128.0    135.3    142.9    152.0    160.7    169.1    177.2    184.4    191.8
D    0.0      0.0      0.0      0.0      0.1 [illegible]1    0.1      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.1      0.1

--- Real Federal Purchases
A  114.6    116.8    121.6    130.0    137.5    142.8    148.2    153.9    159.3    164.9
B  SAME

--- Real State and Local Government Purchases
A  176.1    172.6    173.1    177.6    182.3    189.1    196.5    203.5    210.4    216.8
B  176.1    172.6    173.1    177.6    182.3    189.0    196.4    203.4    210.3    216.7
D    0.0      0.0      0.0      0.0      0.0      0.1      0.1      0.1      0.1      0.1
%    0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.0      0.1
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APPENDIX TABLE 3

IMPACTS OF DEFENSE EXPENDITURES ON INDUSTRY
PRODUCTION AND EMPLOYMENT, 1981
(BILLION 1972 DOLLARS EXCEPT AS NOTED)

INDUSTRY	DEFENSE PURCHASES	OUTPUT FOR DEFENSE	TOTAL OUTPUT	EMPLOY-MENT (MILL.)	DEFENSE SHARE (%)
AGRIC. FORESTRY & FISHERY PRODS.	0.07	0.82	101.82	2.76	0.81
AGRIC. FORESTRY & FISHERY SERV.	0.00	0.04	4.49	0.16	0.89
METAL ORES MINING	0.00	0.16	3.46	0.09	4.59
COAL MINING	0.00	0.17	6.98	0.22	2.47
CRUDE PETROLEUM & NATURAL GAS	0.02	0.71	25.95	0.50	2.73
NONMETALLIC MINERAL MINING NEC	0.00	0.09	4.57	0.12	1.95
CONSTUCTION	1.66	2.25	145.70	5.05	1.55
ORDNANCE & ACCESSORIES	5.30	5.65	8.85	0.26	63.84
FOOD & KINDRED PRODUCTS	0.36	1.00	140.40	1.69	0.71
TOBACCO MANUFACTURERS	0.00	0.02	9.96	0.07	0.15
TEXTILES & APPAREL	0.12	0.49	59.12	2.02	0.83
HOUSEFURN. & FAB. TEXTILE PRODS.	0.09	0.14	5.30	0.16	2.70
LUMBER & WOOD PRODUCTS	0.01	0.33	21.79	0.58	1.52
FURNITURE & FIXTURES	0.07	0.14	12.17	0.49	1.12
PAPER & ALLIED PRODUCTS	0.06	0.43	24.04	0.46	1.80
PAPERBOARD CONTAINERS & BOXES	0.01	0.18	8.59	0.19	2.11
PRINTING & PUBLISHING	0.08	0.61	39.26	0.83	1.56
CHEMICALS & CHEMICAL PRODS. NEC	0.19	0.81	29.91	0.42	2.70
PLASTICS & SYNTHETIC MATERIALS	0.01	0.31	13.98	0.19	2.23
DRUGS, CLEANING & TOILET PREPS.	0.04	0.13	25.44	0.35	0.51
PAINTS & ALLIED PRODUCTS	0.00	0.13	3.72	0.06	3.43
PETROLEUM & COAL PRODUCTS	0.68	1.25	33.26	0.19	3.77
RUBBER & PLASTIC PRODUCTS NEC	0.10	0.65	24.81	0.71	2.62
LEATHER & LEATHER PRODUCTS	0.01	0.02	4.43	0.21	0.35
GLASS & GLASS PRODUCTS	0.01	0.11	5.67	0.18	1.95
STONE & CLAY PRODUCTS	0.04	0.31	15.21	0.63	2.02
PRIMARY FERROUS METALS	0.04	1.80	35.13	0.71	5.12
PRIMARY NONFERROUS METALS	0.95	1.77	28.06	0.38	6.29
FABRICATED METAL PRODUCTS	0.32	1.83	51.02	1.42	3.58
ENGINES & TURBINES	0.15	0.30	5.78	0.11	5.20
FARM & GARDEN MACHINERY	0.01	0.04	7.26	0.14	0.59
CONSTR. MINING & MAT. HAND. EQ.	0.42	0.51	14.68	0.35	3.50
METALWORKING MACH. & EQUIP.	0.27	0.59	10.09	0.38	5.89
NONELECTRICAL MACHINERY NEC	0.85	2.20	55.29	1.30	3.98
ELECTRICAL MACH. & EQUIP.	7.66	11.23	76.01	1.96	14.77
MOTOR VEHICLES & EQUIPMENT	1.13	1.45	67.84	0.92	2.14
AIRCRAFT INCL. PARTS & EQUIP.	7.88	9.65	26.87	0.66	35.93
SHIPBUILDING & REPAIRING	2.53	2.37	6.01	0.20	39.49
TRANSPORTATION EQUIPMENT NEC	0.03	0.06	7.42	0.16	0.80
SCIENTIFIC & CONTROL EQUIP.	0.81	0.96	7.86	0.23	12.21
INSTRUMENTS & MISC. EQUIP. NEC	0.48	0.64	16.14	0.34	3.96
MISC. MANUFACTURING NEC	0.06	0.16	13.74	0.39	1.16
RAILROADS & RELATED SERVICES	0.21	0.51	17.33	0.48	2.93
PASSENGER TRANSPORTATION NEC	0.02	0.11	6.09	0.41	1.86
MOTOR FREIGHT	0.78	1.39	32.57	1.37	4.25
WATER TRANS. & RELATED SERV.	0.46	0.66	10.47	0.25	6.34
AIR CARRIERS & RELATED SERV.	0.34	0.62	17.29	0.48	3.56
PIPELINES EXCEPT NATURAL GAS	0.02	0.06	1.76	0.01	3.65
TRANSPORTATION SERVICES NEC	0.04	0.08	1.77	0.16	4.75
COMMUNICATION EXC. RADIO & T.V.	0.68	1.40	60.56	1.07	2.31
RADIO & TELEVISION BROADCASTING	0.01	0.11	6.30	0.05	1.77
UTILITIES	0.33	1.35	65.41	0.77	2.06
WHOLESALE TRADE	0.78	2.68	123.69	5.31	2.17
RETAIL TRADE	-0.04	0.16	135.88	10.99	0.12
BANKING	0.01	0.33	34.51	1.57	0.96
CREDIT AGN. & SECURITY BROKERS	0.08	0.19	17.70	1.02	1.10
INSURANCE CARRIERS & AGENTS	0.00	0.27	51.65	1.47	0.53
REAL ESTATE	0.14	1.64	130.40	0.78	1.26
HOTELS & LODGING PLACES	0.31	0.50	9.81	0.80	5.05
PERSONAL SERVICES NEC	0.15	0.32	22.39	2.41	1.41
BUSINESS SERVICES NEC	0.94	2.71	58.88	2.86	4.61
ADVERTISING	0.00	0.08	4.23	0.03	1.78
MISC. PROFESSIONAL SERVICES	0.36	1.22	40.36	1.85	3.03
EATING & DRINKING PLACES	0.17	1.11	54.87	6.47	2.03
AUTOMOBILE REPAIR & SERVICES	0.09	0.45	31.88	1.30	1.43
MOTION PICTURES	0.04	0.10	7.61	0.10	1.29
AMUSEMENT & RECREATION SERVICES	0.04	0.10	13.38	0.63	0.71
DOCTORS & DENTISTS	0.13	0.13	30.96	1.47	0.43
HOSPITALS	0.14	0.14	34.05	2.84	0.41
OTHER MEDICAL & HEALTH SERVICES	0.03	0.04	14.86	1.35	0.25
EDUCATIONAL SERVICES	0.41	0.45	12.87	1.91	3.49
SERVICES NEC	0.16	0.29	22.84	2.36	1.25

SOURCE: DATA RESOURCES, INC.

APPENDIX TABLE 4

IMPACTS OF DEFENSE EXPENDITURES ON INDUSTRY
PRODUCTION AND EMPLOYMENT, 1992
(BILLION 1972 DOLLARS EXCEPT AS NOTED)

INDUSTRY	DEFENSE PURCHASES	OUTPUT FOR DEFENSE	TOTAL OUTPUT	EMPLOY-MENT (MILL.)	DEFENSE SHARE (%)
AGRIC., FORESTRY & FISHERY PRODS.	0.11	1.47	130.20	2.80	1.13
AGRIC., FORESTRY & FISHERY SERV.	0.00	0.09	6.62	0.18	1.32
METAL ORES MINING	0.00	0.34	4.59	0.10	7.31
COAL MINING	0.01	0.40	10.41	0.30	3.87
CRUDE PETROLEUM & NATURAL GAS	0.04	1.14	34.67	0.79	3.34
NONMETALLIC MINERAL MINING NEC	0.01	0.20	6.86	0.13	3.08
CONSTUCTION	3.63	4.90	206.39	5.97	2.38
ORDNANCE & ACCESSORIES	13.23	14.10	18.50	0.33	76.18
FOOD & KINDRED PRODUCTS	0.91	1.96	181.11	1.63	1.08
TOBACCO MANUFACTURERS	0.00	0.03	9.77	0.06	0.26
TEXTILES & APPAREL	0.18	0.93	84.14	2.14	1.10
HOUSEFURN. & FAB. TEXTILE PRODS.	0.14	0.25	7.91	0.19	3.20
LUMBER & WOOD PRODUCTS	0.02	0.73	30.83	0.65	2.37
FURNITURE & FIXTURES	0.13	0.26	19.20	0.60	1.37
PAPER & ALLIED PRODUCTS	0.11	0.93	33.42	0.50	2.79
PAPERBOARD CONTAINERS & BOXES	0.01	0.41	12.03	0.21	3.41
PRINTING & PUBLISHING	0.19	1.38	57.15	0.92	2.41
CHEMICALS & CHEMICAL PRODS. NEC	0.36	1.9[illegible]	46.47	0.48	4.08
PLASTICS & SYNTHETIC MATERIALS	0.02	0.94	26.08	0.21	3.61
DRUGS, CLEANING & TOILET PREPS.	0.08	0.28	38.05	0.38	0.73
PAINTS & ALLIED PRODUCTS	0.01	0.28	5.59	0.07	5.07
PETROLEUM & COAL PRODUCTS	1.20	2.31	38.33	0.18	6.02
RUBBER & PLASTIC PRODUCTS NEC	0.27	1.79	43.72	0.86	4.10
LEATHER & LEATHER PRODUCTS	0.01	0.03	6.97	0.21	0.51
GLASS & GLASS PRODUCTS	0.02	0.28	8.89	0.19	3.19
STONE & CLAY PRODUCTS	0.08	0.71	22.46	0.44	3.18
PRIMARY FERROUS METALS	0.10	3.65	47.91	0.70	7.62
PRIMARY NONFERROUS METALS	0.12	4.58	46.75	0.48	9.79
FABRICATED METAL PRODUCTS	0.73	4.28	79.61	1.66	5.38
ENGINES & TURBINES	0.36	0.66	8.64	0.12	7.65
FARM & GARDEN MACHINERY	0.03	0.09	10.20	0.16	0.91
CONSTR., MINING & MAT. HAND. EQ.	0.03	1.00	24.18	0.44	4.12
METALWORKING MACH. & EQUIP.	0.71	1.83	16.69	0.48	8.56
NONELECTRICAL MACHINERY NEC	1.04	5.53	106.29	1.58	5.21
ELECTRICAL MACH. & EQUIP.	18.91	29.03	145.06	2.36	20.01
MOTOR VEHICLES & EQUIPMENT	3.02	3.83	121.02	1.01	3.17
AIRCRAFT INCL. PARTS & EQUIP.	18.98	23.29	52.91	0.70	44.01
SHIPBUILDING & REPAIRING	4.92	4.49	9.85	0.22	45.58
TRANSPORTATION EQUIPMENT NEC	0.06	0.14	12.02	0.19	1.13
SCIENTIFIC & CONTROL EQUIP.	1.60	1.97	14.63	0.31	13.48
INSTRUMENTS & MISC. EQUIP. NEC	0.93	1.26	26.15	0.40	4.83
MISC. MANUFACTURING NEC	0.10	0.34	20.93	0.05	1.62
RAILROADS & RELATED SERVICES	0.37	1.06	26.34	0.49	4.03
PASSENGER TRANSPORTATION NEC	0.03	0.29	9.77	0.52	2.99
MOTOR FREIGHT	1.26	2.64	49.83	1.63	5.30
WATER TRANS. & RELATED SERV.	0.72	1.02	15.70	0.30	6.52
AIR CARRIERS & RELATED SERV.	0.56	1.24	26.59	0.49	4.68
PIPELINES EXCEPT NATURAL GAS	0.03	0.11	1.83	0.01	5.76
TRANSPORTATION SERVICES NEC	0.08	0.15	2.64	0.19	5.52
COMMUNICATION EXC. RADIO & T.V.	1.19	3.48	120.26	1.25	2.89
RADIO & TELEVISION BROADCASTING	0.01	0.26	9.54	0.06	2.73
UTILITIES	0.61	2.77	83.57	0.84	3.31
WHOLESALE TRADE	1.70	6.21	181.10	6.62	3.43
RETAIL TRADE	-0.06	0.40	197.73	13.63	0.20
BANKING	0.02	0.82	52.31	2.38	1.57
CREDIT AGN. & SECURITY BROKERS	0.00	0.46	26.90	1.21	1.72
INSURANCE CARRIERS & AGENTS	0.30	0.59	73.69	1.68	0.80
REAL ESTATE	0.30	3.54	185.47	0.89	1.91
HOTELS & LODGING PLACES	0.52	0.98	16.39	1.07	6.01
PERSONAL SERVICES NEC	0.29	0.67	32.39	2.94	2.07
BUSINESS SERVICES NEC	1.78	6.41	98.30	4.30	6.52
ADVERTISING	0.01	0.18	6.41	0.64	2.76
MISC. PROFESSIONAL SERVICES	0.58	2.93	63.59	2.66	4.61
EATING & DRINKING PLACES	0.27	2.57	71.65	6.85	3.58
AUTOMOBILE REPAIR & SERVICES	0.15	0.99	45.83	1.42	2.15
MOTION PICTURES	0.05	0.15	8.43	0.18	1.80
AMUSEMENT & RECREATION SERVICES	0.05	0.19	19.21	0.77	1.00
DOCTORS & DENTISTS	0.24	0.24	54.19	2.46	0.45
HOSPITALS	0.25	0.25	59.28	3.82	0.42
OTHER MEDICAL & HEALTH SERVICES	0.06	0.08	25.67	2.23	0.30
EDUCATIONAL SERVICES	0.78	0.08	17.56	2.09	0.57
SERVICES NEC	0.33	0.66	37.39	3.14	1.77

SOURCE: DATA RESOURCES, INC.

Mr. Mitchell. Thank you very much. I must confess to my colleagues that I have been pleasantly surprised at the interest shown in the jobs training provisions of H.R. 2132. That was the centerpiece of attention at our hearing in Raleigh. And we are grateful for the interest and support.

Some of the members of the committee will remember that maybe 3 years ago we had a meeting with small business people informally. At that time they estimated that in the small machine shops there were possibly as many as 40,000 jobs, and that that number would increase dramatically because those who have been trained are now growing old and moving out of the labor force. And they talked about the difficulties of attempting to train people on highly expensive materials.

So this is one small step in that direction. If we could begin to meet that need I'm certain that it would have an increasingly salutary effect on the small business community.

Congressman Smith?

Mr. Smith of Iowa. Well, I want to thank the gentleman for his comments. And if I'm not mistaken, you represent an industry that's 100 percent small business. Is that still true, or not?

Mr. Hahn. I believe that if we're not 100 percent we're in the Ivory Snow range. We might have one or two of our——

Mr. Smith of Iowa. It's one of the very——

Mr. Hahn [continuing]. 3,700 companies that have over 500 employees.

Mr. Smith of Iowa. It's one of the very few industries left that's 100 percent small business, or very close to it. And for years we've always been glad to hear from you because we're hearing from small business when we hear from you. Thank you very much.

Mr. Mitchell. Congressman Daub?

Mr. Daub. I just appreciate very much the testimony that you brought to the committee. As always, I guess I'm troubled by tax credits because of the revenue expenditure—if I can use that term—that occurs. When I see some of the abuses, I mean it's not that I don't see some value in the jobs tax and targeting of those kinds of credits, but I get worried when I see businesses in my own district, with all due respect, that use the credit and then they use it and they use it and they keep a turnover going so that the employee that they get the benefit of the credit for in training is then sort of a target for being laid off and the next person hired. And there's a problem there, I think, in the 2- and the 3-year cycle that occurs where some businesses simply cut their payroll and abuse that process.

I don't know that can ever be stopped except by audit and maybe some other language, generally, that would be in all kinds of revenue rulings with respect to the legitimacy of claiming of that jobs credit for training. But it's very difficult, I think, for me to look at it as just a panacea or a cure-all for an industry, particularly like yours.

I know we've lost some businesses in your association in my district. We have some businesses that make nuts, bolts, and screws. And of course, one of the bigger problems is not what the Government will or won't do, it's what foreign competition and imports to your small business industries are doing with respect to the high capital intensive nature of the equipment you've got to have just to run your small businesses.

Mr. **Hahn**. You're absolutely correct. I think your observation about the potential for abuse is well taken. Perhaps one way to address that problem, and we have suggested this at various points, is to make eligibility for tax credits based on legitimate demonstrable shortages of labor in whatever the area is. And you might make it, say, a trigger effect. If you can document—maybe the Labor Department could be doing a survey—that there is more than a 5-percent or 10-percent shortage of labor then they would be eligible. You would track whether or not new hires were made, and at some point when they get up to 95 percent, or whatever, their eligibility would automatically expire.

I, too, am troubled about industries or professions where there is already full employment and people are taking tax credits. I think there is some potential criticism there.

Mr. **Daub**. I can argue the other side where I find them very useful. Particularly they could be helpful to small business. So I'm just raising the point with you——

Mr. **Hahn**. Yes.

Mr. **Daub** [continuing]. That I find some abuse there and it's difficult for me to know just exactly whether we're ending up defeating our own purpose by using them.

Mr. **Hahn**. I agree.

Mr. **Daub**. And I'm not sure that we can control that very well at this point.

Let me ask you about your comment with respect to equity purchased by the Small Business Administration of stock in a small company. How would you see the selection process of which companies the SBA ought to buy stock in?

Mr. **Hahn**. Well, I think they should approach it from a businesslike standpoint. With any program of that sort there would be a potential for abuse—perhaps a means of bailing out a small and weak company. But I think what you would look at very carefully would be the financial stability of the company in its potential market. And if in fact it's a growing company and, like most small businesses, probably undercapitalized but can demonstrate a market, an expanding market or a market share for them that's potentially expanding and that that money can be used, or will be used, let's say, to create new jobs and the numbers work, I think that's the criteria that you would use.

Mr. **Daub**. You would see then a Government official actually coming into the shareholders' meeting and voting that stock?

Mr. **Hahn**. That would be a problem if it was voting stock.

Mr. **Daub**. Yes.

Mr. **Hahn**. That's a potential problem. I don't know what you do about that, sir.

Mr. **Smith** of Iowa. Will the gentleman yield?

Mr. **Daub**. Of course, I'll be happy to yield.

Mr. **Smith** of Iowa. What about just using the same criteria you used for direct loans? If they would have been eligible for a direct loan well then instead of getting the direct loan and paying fixed interest costs, they can get part of it in equity as stock. And they don't have to go to board meetings or anything else.

Mr. **Hahn**. That sounds very reasonable to me.

Mr. **Smith** of Iowa. But if you sell the stock within 5 years, why the Government gets a little participation out of it.

Mr. **Daub**. Or if I would again sort of cross-colloquy here with the three of us, could it be that you would limit it to a nonvoting class of stock?

Mr. **Smith** of Iowa. Well, I think that's intended.

Mr. **Daub**. You intend to do it that——

Mr. **Smith** of Iowa. Yes.

Mr. **Daub** [continuing]. In that fashion?

Mr. **Smith** of Iowa. Yes. And then if they sell within 5 years, why the Government gets a little more than the direct interest rate. If they go broke, well, you're out.

Mr. **Daub**. I want to know where the fiduciary duties then would be as a result of this ownership or this equity thing? You know, your stock is one thing. I see a lot of value, for example, in the participating debenture. The White House Conference recommendations for small business debentures, if you'll recall that issue, which I hope someday we get to. How does the SBA then, as an owner of equity, stock ownership in that business, protect its portfolio?

Mr. **Smith** of Iowa. I think you do exactly the same thing you do with direct loans. It's just in lieu of part of it being a direct loan, really.

Mr. **Daub**. Is that what you want the record to show? You're nodding your head.

Mr. **Hahn**. Yes, in agreement.

Mr. **Daub**. The record will show that you agree with Mr. Smith.

Mr. **Hahn**. Yes.

Mr. **Daub**. A microphone doesn't quite pick up the nod of the head.

We appreciate it. Thank you very much, Mr. Chairman.

Mr. **Hahn**. Thank you, sir.

Mr. **Mitchell**. Thank you.

Mr. **Hahn**. Thank you, Mr. Chairman.

Mr. **Mitchell**. We appreciate your testimony.

Our next witness is Mr. Patrick Owen Burns, Legislative Chairman, American Association of MESBIC's. Good to see you again.

Mr. **Burns**. Thank you, Mr. Chairman.

Mr. **Mitchell**. Before you make your statement, I want to say that when I came to the Congress, one of the first fights in which I was involved was over attempts to deny money for MESBIC's.

TESTIMONY OF PATRICK OWEN BURNS, PRESIDENT, MINORITY EQUITY CAPITAL CO., INC., AND LEGISLATIVE CHAIRMAN, AMERICAN ASSOCIATION OF THE MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANIES

Mr. **Burns**. I think your recollection is accurate. And I think your role then and now continues to be extremely helpful and supportive to the MESBIC industry and through us to our hundreds and thousands of portfolio companies.

Mr. **Mitchell**. And I wanted also to say that I have noted over the past 4 or 5 years a greatly expanded effort on the part of the

MESBIC's. I think, Neal, you will remember one time we were a little upset because MESBIC's were being super cautious. Certainly you want to protect all investments maximally. But we've noted an expansion of your portfolio, the number of portfolio companies and that's very encouraging.

Mr. Burns, we have a copy of your statement. It will be submitted in its entirety for the record. If you so desire, you can just highlight the salient points in your testimony.

Mr. BURNS. Thank you, Mr. Chairman, that's exactly what I intend to do.

I assume there is no need to introduce myself although I will in any event. I am Patrick Burns, president of Minority Equity Capital Co., a MESBIC operating out of New York City, and I serve as a volunteer chairman of the legislative committee of the American Association of MESBIC's on whose behalf I'm appearing this morning.

MECCO, our company, is one of the larger MESBIC's and also one of the older ones. We were organized in 1971. We have in excess of $2.5 million of private capital from some seven institutional investors. We've invested over the years over $5 million and have seen that trigger over $50 million to some 30 portfolio companies in about 20 States and the District of Columbia.

I'm testifying this morning on behalf of the association in support of two pieces of pending legislation. I'd like to make a couple of brief comments on features of those two pieces of legislation, speaking particularly about H.R. 860 and I will subsequently make some comments about H.R. 2132.

In H.R. 860, there are two points of particular interest to the MESBIC community I'd like to highlight for your attention: One is the increased authorization for 1983 of $41 million, an increase over the level in the continuing resolution of $35 million for leveraging opportunities for the better than 120 licensed MESBIC's around the country.

We think this is an important increase for two reasons: One is that it's a sign of the type of recognition that the chairman has already referred to, and that is that the MESBIC industry is in fact maturing, is in fact spreading its wings and undertaking larger and more complex financings with important impact, both to the minority business community, to job creation, and to the general climate of business activities in the country. And that the continuity and increase in leverage opportunity serves both as an encouragement for the existing companies and as an attraction and magnet for the creation of new and larger capitalized companies.

We think that's an important step.

The second item in H.R. 860 concerns specialized leverage opportunity for those MESBIC's which have public funds. A number of MESBIC's were created over the years, encouraged to meld public funds with private capital, and to consider themselves, when they were formed, eligible for all the privileges and opportunities of leverage that pertained to a purely privately capitalized MESBIC.

That, in fact, was the attractive feature for the organization of a number of these companies who have now found themselves in a bind with no particular indicated way out. That is that SBA has through regulatory decision decided not to grant leverage to any

MESBIC with public funds to the extent that those public funds are being sought to be leveraged.

One such company brought a suit, was successful, and despite that success the SBA has continued to deny leverage to these companies in this category of which there are about 15, I believe, with funds from the Department of Transportation, Housing and Urban Development, Model Cities Programs, a variety of other public sector funding devices.

The House last year passed legislation which would grandfather in those companies that had been attracted to the program with full expectation of the ability to leverage both the private and public funds. That bill was passed by the House but never made it completely through the legislative process.

H.R. 860 contains a proposal to cure this anomaly and, we feel, unwarranted refusal by SBA, given both its history of the incentives to the company's court decisions to leverage all of the capital in these companies. So we would support that legislation.

I would like briefly to comment on one or two features of H.R. 2132, which is focusing quite critically on job creation and economic recovery stimulation. Simply, I would cite the MESBIC Association's interest in, and support of, and encouragement for the regularity of leverage opportunity, which is reflected in this bill.

The partnership between the Government through SBA and the private sector investors and our investors, which includes the City Bank, the Episcopal Church, Metropolitan Life Insurance Co., and the Ford Foundation, a not atypical group of investors in the MESBIC program, that partnership is critical to the success of the program.

And any break in the public path of the partnership through the leverage opportunity has a terribly negative impact both on the existing companies, MESBIC's, and their ability to plan their own economic activities, and is an absolute depressant to the creation of any new companies.

So we believe that the continuity of leverage as reflected in H.R. 2132 is critical. In that context, there has been a lot of conversation in the past about problems that the small business community has had. And unfortunately all of the stories, horror stories, that you know so well can be matched from horror stories that our own members have had with their portfolio companies.

These have been terrible times for minority small business in particular, and small business in general itself. Nevertheless, we in the MESBIC industry feel that it is important to indicate that there are success stories. There are important minority businesses that came into being through the efforts of the SBIC, and most importantly the MESBIC segment of the SBIC.

Unity Broadcasting, which happens to be one of our portfolio companies, was started 8 years ago on a shoestring with financing from a consortium of MESBIC's. Unity is a black news network. And Unity now owns four radio properties, has applications for five cellular telephone licenses moving as a black company to the forefront of a merging technology in communications, and a highly successful visible, and both economically and psychologically important source of news for the minority community around the country.

Another company by happenstance, a portfolio company of ours, and of a half a dozen other MESBIC's, is Essence magazine, which also started on a shoestring some 13 years ago, went through the tortures of the damned, and came back to the MESBIC community on several occasions.

The MESBIC community was able to continue to provide financing. Essence is now one of the most successful magazines in the country. It is an important role model for black women across the country, an important source of information, inspiration, as well as an avenue for America's nonminority business to communicate with the black consumer generally.

I cite these simply to put a few items on the scale of success. My testimony cites others such as the Blackfeet Indian Writing Company, and a number of other writing companies. But I do not think that it is necessary at this point to belabor that point.

We have attached to our prepared statement, which has been submitted, Mr. Chairman, an indication of the diversity of the MESBIC investments over the years. Perhaps more importantly an indication of the job impact that MESBIC investments have made.

Without fine tuning it too much, we have had positive impact in the range of 10,000 to 12,000 jobs per annum over the last 4 or 5 years. We think that that can be nothing but beneficial, and that the support of the pending legislation will permit the industry to expand with no support created on behalf of minority small business.

Thank you, very much.

[Mr. Burns' prepared statement with attachment follows:]

PREPARED STATEMENT OF PATRICK OWEN BURNS, PRESIDENT, MINORITY EQUITY CAPITAL CO., INC., AND LEGISLATIVE CHAIRMAN, AMERICAN ASSOCIATION OF MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANIES

Good morning Mr. Chairman and members of the Committee. My name is Patrick Owen Burns and I am president of Minority Equity Capital Company, Inc. [MECCO], and board member and legislative chairman of the American Association of Minority Enterprise Small Business Investment Companies [AAMESBIC].

MECCO, organized in 1971, presently has $2.6 million of private capital provided by seven investors/shareholders. The five original investors, Metropolitan Life Insurance Company, The Ford Foundation, the Episcopal Church, Interracial Council for Business Opportunity [ICBO], and an individual were subsequently joined by FNCB Capital Corporation (City Corp's venture capital arm) and IBM. MECCO has "taken down" $2 million of SBA leverage in preferred stock plus $500,000 of subordinated debentures. Over the years, MECCO has provided from its own resources, private capital and leverage dollars, over $5 million of financing to some 30 companies with economic activity and payrolls in twenty states and the District of Columbia. MECCO's venture investments directly or in conjunction with other MESBIC's triggered or served as the basis for over $50 million of additional capital, frequently for expansion. Our portfolio companies range from publishing, such as Essence, to radio and TV stations in a number of States including Tennessee, New York, Missouri, Pennsylvania, Georgia, and Indiana to manufacturing firms based in plants in Connecticut, Texas, New York, and Vermont, serving a nationwide customer network to distribution and retail chains as well as construction firms.

Today, I would like to testify on behalf of the MESBIC industry in favor of two proposed bills—H.R. 860 and H.R. 2132.

H.R. 860, AMENDING THE SMALL BUSINESS ACT AND THE SMALL BUSINESS INVESTMENT ACT OF 1958

H.R. 860 includes a MESBIC authorization level for fiscal year 1983 of $41 million, an increase over the continuing resolution of $35 million. The authorization level contained in H.R. 860 is the amount contained in the administration's initial budget proposal for fiscal year 1983. In addition it is the level approved by the full House as part of H.R. 6086 during the 97th Congress. We view this increase and the general approval it has received as recognition of the contributions the industry has made to and on behalf of the minority small business community.

Between 1974 and 1982, the MESBIC industry invested over $260 million in 4,274 minority businesses. The jobs created or maintained by those investments in the latter half of that period alone totalled over 52,000. In 1982, MESBIC's invested $46.2 million in 750 businesses, drawing an additional $93 million to minority business investments from other private sector sources.

Also included in H.R. 860 is a provision allowing for the leverage of certain public funds invested in MESBIC's. In the early stages of the MESBIC program, a provision was made in SBA's regulations for the leverage of Federal and State funds invested in the program as a part of a general business effort. Over $17 million in public funds were invested, and for several years, the SBA leveraged those funds. Then in July 1980, the Comptroller General issued an opinion that it considered all public funds ineligible for SBA leverage. The SBA abruptly halted all public funds leveraging. Thus millions of dollars in public and private sector funds have been invested in the program on the basis of a regulatory provision that the SBA abruptly decided to honor no longer. Had the possibility of this occurrence been known ahead of time, these funds might well have been used for other purposes. We feel that SBA reneged on prior undertakings by taking this action against the leveraging of public funds. Given these background facts, we feel it only fair and equitable that all public funds invested in the MESBIC program prior to the Comptroller General's opinion be considered by the SBA as eligible for leveraging, provided that all other leverage requirements are met.

The inequity of the existing situation has been recognized by the U.S. District Court for the District of Columbia in its recent decision in favor of public funds leverage, and by the full House, which approved a public funds leverage amendment last year. Yet, the SBA has taken no actions to rectify the situation, and has in fact done the opposite. When the Investment Division published its proposed regulatory changes in August, it issued a regulation prohibiting the leveraging of public funds. These regulations are scheduled to be published in final form within the next 60 to 90 days. The American Association of MESBIC's is deeply distressed over the inept regulatory and administrative handling of this issue by the Small Business Administration. We are pleased that the committee has proposed an equitable solution toward rectifying this situation.

H.R. 2132, AMENDING THE SMALL BUSINESS ACT AND OTHER PURPOSES

H.R. 2132 provides for authorization of $100,000 for MESBICs in fiscal years 1984 and 1985. This proposal is an important statement of support for the MESBIC industry. In the context of consideration of this legislation we would like to stress the importance of policy continuity regarding the industry.

In recent years, the industry has faced a variety of problems with availability and access to leverage. For example, in 1979, there was an extreme shortage of leverage dollars and many prospective business opportunities were not able to be funded. In 1980, after considerable agony, the industry appropriation was increased and MESBIC's across the country were able to draw down needed funds from the SBA. In 1981, the MESBIC industry was put in the position of being totally stricken from the budget. It took months of hard work and strenuous effort by the industry to reinstall the program funds to the budget. The Administration has recommended an increased level of funds for the MESBIC program for fiscal year 1983. Congress seems to be in agreement with that recommendation. The point with this recitation of history is that the industry is on a veritable roller coaster from year to year. MESBIC's make long term investment decisions, and in order for the industry to continue developing long term investment strategies and seek out additional private capital, there must be continuity and an understanding of the public sector's role in the total equation. The partnership concept can only function efficiently if the public sector partner realizes that the leveraging of funds must be accomplished in a timely and business-like manner. The increased efficiency will allow MESBIC's the opportunity to make increased investments in a wide variety of industries. The committee's understanding of the investment cycle and the need for continuity is very important to the overall growth and stability of the program. The MESBIC industry is proud of many of the successes contained within their portfolios and would like to provide for the record sample "success stories" from some of the MESBICs' investment portfolios.

PORTFOLIO COMPANIES

Communications has been an increasingly important area of investment for the MESBIC industry. Recent technological advances and the availability of as yet unclaimed markets in largely minority areas make communications an especially attractive field for MESBIC investors. Our optimism about the field is, in fact, proving to be well founded.

Seven years ago, a consortium of MESBIC's invested in Unity Broadcasting in New York as a startup venture. The entrepreneurs wanted to put together a news network with a black perspective to provide a format to black radio stations across the country. Today they not only serve 80 to 90 radio stations, they also own 5 stations, and are nationally recognized with affiliates in almost every major populations center and are moving aggressively into cable. In addition, Unity Broadcasting has applied for cellular radio licenses in five cities and is in the forefront of this new technology.

One of our most successful publications deals has been Essence magazine. A group of MESBIC's and SBIC's invested in Essence in the early stages of financing, and provided further financing at a later stage, for a total investment of in excess of $1 million. Its present circulation is 700,000 and its advertising has reached the 1,000 page level. Essence is an especially important investment because it creates and reinforces a positive image of Black women in the Black community at the same time it serves as a communications link between corporate America and the Black consumer. Essence has now expanded to include offices in Atlanta and Chicago, is inaugurating a weekly T.V. program and exploring several avenues of diversification.

Prominent examples of manufacturing investments would include the winner of last year's Capital Access Achievement Award, The Blackfeet Indian Writing Company which since 1971 has been manufacturing wood case pencils, ball point pens, and fine line and broad tip markers. In 1978, recognizing the need for additional capital, a MESBIC consortium purchased $600,000 of preferred company stock. An innovative financing plan enabled the company to raise the money, create an Employee Stock Ownership Plan, and retire existing indebtedness. A second financing in 1981, which involved several of the original MESBIC investors, allowed the Blackfeet Indian Writing Company to purchase Lindy Pen Company—the oldest ball point pen company in the country. Today, the company has annual sales of approximately $8 million. It employs more than 175 people and produces its goods on the Blackfeet Indian Reservation. Articles about the company highlighting its business and job creating successes have appeared in Forbes, Time, and in Nation's Business.

In the area of services, the MESBIC industry can boast of its investment in Boone, Young & Associates. This management consulting firm is one of the major contractors with the Department of Commerce's Minority Business Development Agency program to provide guidance counselling and general business assistance to minority concerns across the Nation. The firm has now expanded to the point where it has been able to acquire three small manufacturing companies.

The MESBIC industry continues to do a substantial number of financings in the retail trade, and has been especially successful with food franchises. One MESBIC played a major role in developing the largest fast food franchise in the country. Many other MESBIC's have invested in food franchises recognizing the management training and employment opportunities they offer—particularly to urban teenagers.

These investment examples were taken from MESBIC's across the country, and are meant to demonstrate the type of work the majority of MESBIC's are doing. The MESBIC industry makes every effort to finance sound minority business opportunities.

Finally, we have attached charts which show the distribution of MESBIC investments over the past 5 years along with the number of employees hired by MESBIC portfolio companies. The MESBIC program has showed study growth over the past 5 years. It is essential this pattern continue. The support of the committee in understanding the role of the MESBIC program in providing essential venture capital to minority businesses is vital.

Mr. Chairman, we appreciate having the opportunity to testify on behalf of H.R. 860 and H.R. 2132. It is always an honor to address your committee. Your support for the MESBIC program has been a source of inspiration.

I would be pleased to answer any questions you might have at this time.

INDUSTRY DISTRIBUTION

[In millions of dollars]

	1981		1980		1979		1978		1977	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Manufacturing	$9.08	16.7	$7.29	17.3	$6.79	19.4	$7.75	24.2	$6.51	28.8
Retail trade	10.55	19.4	7.50	17.8	6.15	17.5	7.14	22.3	4.29	19.0
Services	7.13	13.1	4.75	11.3	3.93	11.2	5.94	18.6	4.06	18.0
Wholesale trade	2.92	5.4	2.04	4.8	1.81	5.2	2.64	8.3	2.06	9.1
Finance, insurance, retail establishments	2.46	4.5	1.62	3.8	1.49	4.2	2.11	6.6	1.10	4.9
Construction	4.01	7.4	6.62	15.7	5.14	14.6	1.53	4.8	.97	4.3
Transportation, communications, utilities	14.36	26.4	10.24	24.3	6.49	18.5	1.48	4.6	1.58	7.0
All other	3.85	7.1	2.11	5.0	3.30	9.4	3.40	10.6	2.03	8.9
Total	54.36	100	42.17	100	35.10	100	31.99	100	22.60	100

JOBS MAINTAINED AND CREATED BY MESBIC INVESTMENTS 1977–81

Year	Jobs maintained	Jobs created	Total
Fiscal year:			
1977	6,463	3,634	10,097
1978	7,263	5,238	12,501
1979	4,016	3,040	7,056
1980	6,340	4,600	10,940
1981	5,344	6,528	11,872
Total	29,426	23,040	52,466

Mr. MITCHELL. Thank you.

Am I reading your chart correctly? I believe it says that in the last 5 years that a total of some 52,000 jobs have been created?

Mr. BURNS. Created or maintained, Mr. Chairman. That is correct. These figures, by the way, are drawn essentially from SBA sources, who have kept good and comprehensive records with regard to MESBIC and SBIC investments.

Mr. MITCHELL. Speaking of SBA, I have yet to understand their rationale for fighting against grandfathering these companies in. It is beyond my comprehension, but we hope that we can get our legislation through. I just do not understand the rationale for the agency's opposition.

Mr. BURNS. I share your puzzlement, Mr. Chairman. I have had the opportunity to participate in three or four small meetings with various levels of SBA administrators. I am not absolutely clear what the rationale is.

Mr. MITCHELL. You talked about your success stories.

I do not mind failures. When you look at the whole bankruptcy rate for small businesses in general over the last couple of years, and if you look at how bad the economy has been, we certainly expect some failures.

What percentage of your portfolio failed in the last year?

Mr. BURNS. In approximately the last year, Mr. Chairman, we had to write off about 20 percent of our portfolio completely. And if

I may sermonize for a second: it is one of the risks of the kind of investment that our industry does.

We do not recover on an unsuccessful venture 70 cents on the dollar, or 83 cents on the dollar. We recover nothing, and in several instances, the companies do not even go through bankruptcy, they just stop.

Mr. MITCHELL. Yet you have to weigh the relatively small percentage of write-offs against some 50,000 jobs in the last 5 years created and/or maintained.

Mr. BURNS. The balance is critical, because if you focused on what I prefer to call unsuccessful investments rather than failures, because that is, in fact, what they are, the balance is both the success stories, or perhaps even more importantly the economic impact that the entire range of investing and economic activity even with the unsuccessful investments.

Because in most cases they have operating lives of 2, or 3, or 4 years with employment opportunity, and learning opportunity, and so forth.

Mr. MITCHELL. One last comment. There is apparently a significant push being made by the various franchisers to expand minority business opportunities which is encouraging. I just wanted to compliment the industry on what it has done in the past in terms of making franchises available to minorities.

It has been enormously successful. I think that the vast majority of the black McDonald's franchises, or a significant percentage of them got help through the MESBICs.

Mr. BURNS. I think that that is correct.

Mr. MITCHELL. And they have done exceedingly well.

Mr. BURNS. Several of my colleagues and I think that we exist solely on McDonald burgers and Burger Kings.

Mr. MITCHELL. Thank you, very much.

Mr. Smith.

Mr. SMITH of Iowa. Well, I, too, want to say that I am glad to hear your testimony.

I just wonder if you see opportunities for new activity increasing or not?

Mr. BURNS. Yes, I do. In a particular slice, and from my perspective, an interesting slice of economic activity. The projects that we are seeing presented to us, and that we had seen over the past 3 or 4 years, tend to be much more complex and larger with real business opportunities being presented.

The dilemma is that for many of the investing companies looking to trying to make an upside return for the risk assumed, there is an inclination to tend away from the neighborhood store. And that is an area that I think needs some focusing on.

But I think that the MESBIC industry is seeing more and more opportunities either where individually or in consortiums $1 million or $2 million of capital from the MESBIC community is going into a project. That is different from 5 years ago when you were talking about half a million being gathered together to go into a project.

Mr. SMITH of Iowa. Is this related to the high cost of money?

Mr. BURNS. It is related in part to the high cost of money, in that you need bulk to pay the freight. It is also related in part to the increased availability of capital from some of the larger MESBICs. The ability to invest is a function of your private capital. As the private capital bases have expanded, the ability to take on larger projects has been created, and the entrepreneurs have responded to that availability of capital.

Mr. MITCHELL. One last question, and you provoked it.

If there was a greater leverage with SBA, what would that do to your expansion efforts?

Mr. BURNS. Well, Congressman Smith did not ask the question, but I will respond to your question by perhaps making a comment about a point that he had raised earlier. I think that the ability to get increased leverage would serve two things. One is that it would continue to attract increased private capital, both institutional and individual.

That is the upside opportunity would be perceived to be somewhat greater. For the very high risks on the downside. These are not marginal risks but they are absolute. If you lose, you lose everything. So I think that you would find more sophisticated investors coming into the program, who would be prepared to take a long view, prepared to take a more growth type of investment look at opportunities. I think that it would be very beneficial.

If I may, Congressman, the question about SBA investing in small businesses to avoid the cost of money, I think that in principle it is a splendid idea, and one that I have argued for in the past as a number of others have.

I think that leaving it in the hands of SBA, however, would be a mistake, and what I would suggest just absolutely arbitrarily and made up on the spot would be that consideration should be given to having companies who are prepared to take leverage, and devote it exclusively to equity investments.

Sign up to the extent that you took down $500,000 from SBA, and you permitted yourself to put it out only in the form of equity, looking at it purely for the capital appreciation opportunity.

Mr. SMITH of Iowa. Well, you know, we have insurance companies and others who have a certain lower fixed interest rate than they participate in the event that it makes more than that amount. I just think that it would be valuable to some of these small businesses if instead of giving a direct loan for 2 percent over prime, they could get a direct loan for half that amount, and then give some participation in return, if they make good.

I do not think that it is all that much different than a direct loan. It is just that the government would have an opportunity then in those cases where they succeed to recover enough to offset some of the losses, and they would not have so much criticism about the big losses that we have in the direct loan program.

Mr. BURNS. I think that the objective is salutory. As a private sector enthusiast, I think that the mechanics of the business decision and investment decision——

Mr. SMITH of Iowa. I do not think that that is involved at all any more than it is in direct loans. When we make a direct loan, we have to make that same exact decision that you are going to make on whether or not to give them a participation. You are still going to have a direct loan.

Mr. **Burns**. From our experience, there is a difference between making an equity oriented investment and making a direct loan.

Mr. **Smith** of Iowa. The direct loan is an equity investment.

Mr. **Burns**. You say——

Mr. **Smith** of Iowa. It is. I mean you are giving them equity in the form of a direct loan, except you are saying to them that we are going to saddle you with an interest cost every year.

Mr. **Burns**. SBA in every case that I am familiar with makes direct loans usually on the basis of collateral.

Mr. **Smith** of Iowa. They cannot satisfy a bank with their collateral. So in effect what you are doing is substituting a direct loan for equity. In effect, when we are giving them a direct loan, we are giving them equity capital at a fixed rate, and then we lose sometimes, which is undertandable.

I am not against losing sometimes. I think that we are supposed to take some risks, but then when somebody really makes it big, I do not know why they cannot pay a little into the till.

Mr. **Mitchell**. The leverage factor is 4 to 1 right now, is it not?

Mr. **Burns**. It is potentially 4 to 1, Mr. Chairman.

Mr. **Mitchell**. Potentially 4 to 1?

Mr. **Burns**. Yes. The last year in fact is a venture capital tier. It has the features of availability only to the extent that the company has made stock investments. So that if you have not made stock investments, you cannot get access to the fourth tier.

Mr. **Mitchell**. I would like to think about a 5 to 1 leverage, I really would, but maybe that is all I can do is think about it right now.

Mr. **Burns**. Well, one other thing, that I am sure that the committee is aware of, but it also keys into some comments that Congressman Smith made, that because of the fluctuating interest rates, some of the leverage that the MESBICs and SBICs have taken down in the past year or two are at high fixed interest rates.

We have a debenture outstanding to the SBA right now that has a face charge that is 3 percent higher than the current prime rate. We have to pay SBA every 3 months, and unfortunately, have to look to our portfolio companies to pay at least that rate.

That then gets quite burdensome, because it is the mixing of long- and short-term lending.

Mr. **Mitchell**. Thank you, very much. I appreciate it.

Our next witness is Mr. Randal Teague, counsel to the Small Business Coalition for Pollution Control. Welcome to the hearing, sir. Thank you, very much, for taking the time to be here. Your entire statement will be submitted for the record. Therefore, if you so desire, you can simply highlight the major points of your testimony.

TESTIMONY OF RANDAL C. TEAGUE, ESQ., COUNSEL, SMALL BUSINESS COALITION FOR POLLUTION CONTROL, WASHINGTON, D.C.

Mr. **Teague**. Thank you, Mr. Chairman. I will do that.

As many of the members of this committee are aware, this particular coalition was founded in 1981 in response to the Reagan administration's interdiction of the section 404 Pollution Control

Facilities Financing Bond program. The coalition represented at that time the interests of more than 100 small businesses with applications then pending before the SBA.

The coalition represents those interests today, but it cannot be said that we represent those particular applicants, because SBA has now returned every single application that was pending before it to those small businesses. Obviously, it is a matter of fact that those applications would have to be updated. But it is also a matter of fact that they would not have had to have been updated except for the 2 years occasioned by the administration's indication of this program.

It is our opinion that the restoration of the guarantees contemplated by the provisions of the legislation pending before you, H.R. 860 and H.R. 2132, are more critical now than at any time since either this program was authorized in 1976 or the administration interdicted it in 1981.

The needs of small businesses in the communities in which they produce for installing pollution control abatement facilities and equipment and for disposing of waste have continued. Quite frankly, the advent of the more targeted national focus on the control of toxic and hazardous waste and substances since the 1976 enactment of this program indicates that those needs have increased.

Since the earliest months of 1981, the administration has disrupted this program. Since the end of 1981, it has by prohibiting the use of guarantees with respect to tax exempt bonds, in essence, destroyed it.

To our knowledge, from the date that the prohibition was put in force to the present, approximately 15 or 16 months, only 5 of the original 100 or more applicants were able to proceed with some form of taxable financing guarantee.

What has happened to many of the small business applicants whose applications were pending with SBA is really something that could be best characterized if one plays video games, as a "time warp." We have had false starts; it has been life in slow motion. We have had indications from the administration that something might be possible in the way of resolution of the issue, only to be turned off again.

In preparation for these hearings today, we surveyed all of our members, and many of them responded. A particular applicant, who already had a verbal commitment from SBA, and therefore had secured a commercial loan which was then to be subsequently guaranteed by SBA, was not allowed to proceed. The disruption with respect to that particular company has been devastating.

All of the applicants have had returned their original applications. We believe that of the original applicants, several have gone out of business since the administration interdicted the program. Quite frankly, there is no way, given the turn-down in the economy over the last several years that it could be said that they went out of business because they were not able to install pollution control facilities or equipment, but they have in fact gone out of business. We have not been able to determine whether or not they were in fact forced to close their facilities because they were not able to obtain variances from Federal, State, or local pollution control authorities.

One applicant has been able to proceed on section 503 financing. But, as you know, the administration has sought as strongly to disrupt the 503 program as it has the section 404 program.

We believe that what these particular small businesses have told us has been written large across the face of all of these applicants. Neither I, nor you, nor SBA, nor OMB, nor Treasury, nor anyone else in the administration can tell us the number and the nature of the other applicants that would have come forward with applications in 1981, 1982, and now 1983, had this program not been disrupted, and the original authority not been prohibited by the administrative fiat. I do not know of any small business in this country that would go out and spend anywhere from $10,000 to $100,000 to have an application prepared to be submitted for a program that really did not, in fact, exist.

In the past several months, SBA has given the appearance to the public, to small businesses, to the administration, and to Congress, that it is trying to find a way to make a taxable program work.

On February 4 of this year, the Deputy Associate Administrator of SBA for Investment convened a meeting of persons within SBA and outside parties to review the status of the current program. They met to ascertain the demand for tax exempt financing and to determine the status of legislation to restore that funding. Most importantly to the SBA and to the administration, they met also to analyze variously proposed measures which singularly or jointly would constitute a viable taxable program.

I attended that meeting, and I appreciate SBA having invited me to it. The discussion was direct, and it was informative. It has been said by SBA officials since that meeting, and perhaps it was said in their testimony before this committee yesterday, that the meeting's conclusion was that some sort of taxable program might be feasible.

As a general statement, that would be true. As a precise statement, it is not true. There was no agreement at that meeting, or even an approximation of an agreement, as to what such a vehicle would be. As a realistic statement, it is also not true, for the one thing that did clearly emerge was the realization that it would take months, if not longer, to develop, review, clear, publish, receive, and incorporate comments and suggested amendments, republish and implement such a taxable program. In no instance would it assist small businesses in meeting the pollution control and waste water disposal requirements imposed upon them by Federal, State, and local authorities as rapidly as would an OMB recision of its directive to SBA on one hand, or the enactment of this legislation on the other.

As you know, the Senate Committee on Small Business has reported to the Senate a bill, S. 499, originally designed to address the section 503 program, which was amended in committee on motion of Senator Levin of Michigan to rectify the problems with respect to the section 404 program.

Under the rules of the Senate, a hold has been put on that legislation by Senator Metzenbaum. I promised his staff that I would not tell the papers in Cleveland that he was in concert with the Reagan administration on this issue. But the Senator has concerns with respect to a Government guarantee of tax exempt bond issue.

I think that it is fair to say that we have resolved those particular concerns. But he still has a hold on the legislation, because of the subrogation provisions of that legislation. That is an issue that perhaps this committee will have to address either in its markup or in conference committee with the Senate.

The issue emerged somewhat surprisingly, because I think that most small businesses that are applicants under this program would expect that if the Federal Government were either first in or last in, that since the Federal Government was providing a guarantee of a tax exempt issue, it would not be subrogated to the rights of a participating private institution, lender or guarantor.

I would hope that one way or the other, that that issue can be resolved quickly, for I think that legislation will be passed on voice vote within the Senate when it is resolved. It is certainly our hope and desire, after each of you has given far more time to this issue than ought to have been required of anyone over the last 2 years, that this committee can report the legislation, and get it through the House, and move it to conference, and to get it on the President's desk.

And I think that that is where the real problem remains today. While we have not been able to persuade the administration that its objections are wrong, there may be some change in the wind with respect to this. The principal opponent of this program within the Department of the Treasury has announced that he is leaving. This is true also of the Associate Director of OMB who has responsibility for this issue. But you and I struggle every day with institutional biases which continue long after particular people have left the institution.

It may well be that with the changes that have now been brought about at EPA, and with the latitude that the new EPA administrator has been given by the administration to effect the statutory mandates, that EPA may be able to have certain influences with OMB to get the SBA program which directly benefits pollution control more favorably looked upon by the administration.

[Mr. Teague's prepared statement follows:]

PREPARED STATEMENT OF RANDAL C. TEAGUE, ESQ., COUNSEL, SMALL BUSINESS COALITION FOR POLLUTION CONTROL, WASHINGTON, D.C.

My testimony today is offered on behalf of the Small Business Coalition for Pollution Control. It is in support of H.R. 860, a bill to amend the Small Business Act and the Small Business Investment Act of 1958, and H.R. 2132, a bill to amend the Small Business Act, and their earliest enactments.

This coalition was organized in 1981 to heighten the awareness of Congress, the administration and the public of the issues involved in determining the future of the Small Business Administration's pollution control facilities and equipment financing guarantee program. The coalition represented at that time the interests of the one hundred-plus small businesses with applications pending before the SBA. The coalition represents those interests today, but it cannot be said that we represent those particular applicants because SBA has returned the applications to those small businesses. While this has been rationalized as necessary in light of the passage of substantial time and the change in the interest rates and other economic factors since they were filed, it is highly indicative of the continued disruption in this program brought about by administration policy.

It is our opinion that the restoration of the guarantees contemplated by the provisions of this legislation is more critical now than at any time since those guarantees were authorized in 1976. The needs of small businesses and the communities in which they produce and serve for installing pollution abatement facilities and equipment and for disposing of wastes have continued, and the advent of a more targeted national focus on the control of toxic and hazardous wastes and substances since the original enactment of this program indicates that those needs may increase.

The 1976 statute, the legislative history surrounding that statute, the four subsequent years of program administration, the need of small businesses for loans and/or the guarantees of those loans to finance facilities and equipment required to comply with Federal, State, and local pollution control and waste disposal requirements, the lack of commercial loans for such purposes and the general plight of small businesses today have seemingly escaped the attention of the administration. Since the earliest months of 1981, that administration has disrupted this program; since the end of 1981, it has, by prohibiting the use of guarantees with respect to tax exempt bonds for such purposes, in essence destroyed it. To our knowledge, from the date this prohibition was put in force to the present, approximately 15 months, only five of the original 100-plus applicants were able to proceed with some form of taxable financing guarantee. That reality has had no impact within the administration in persuading it that its policy is wrong. Thus, enactment of the provisions of H.R. 860 and H.R. 2132 is essential.

It is not our intention to take up the time or strain the attention of this subcommittee today by reciting the detailed history of this program, what the Administration has done with respect to it, and what the arguments in law and fact are in response to the administration's assertions. We spread that upon the record of this committee last session, most notably on February 10 and April 28, and the administration's assertions have not changed, nor have our responses. We would like to confine our testimony to what has happened in the interim and what must be done.

What has happened to many of the small business applicants whose applications were pending at SBA at the time the administration put this program into a video game-like timewarp of slow motion activity is a sad commentary. For examples:

A New England small business, which had secured a commercial loan on the basis of the SBA's verbal commitment, was not allowed to close on the tax exempt bond issue guarantee and may be in severe fiscal distress as a result.

All the small business applicants have had returned to them by the SBA's Office of Special Guarantees their original applications, even though most had spent tens of thousands of dollars each, and several had spent over a hundred thousand dollars each, in having those applications prepared and pursued in good faith.

The coalition believes that seven or eight of the original 100-plus applicants have gone out of business or otherwise have had to shut down during this period.

Only five of those applicants were able to proceed with the taxable financing guarantee mandated by the Office of Management and Budget directive, effective after December 31, 1981.

A Colorado former applicant business has written to us: "I have proceeded to secure tax free financing without a guarantee. This required me to accept far less favorable terms than I would have been able to obtain with a SBA guarantee, but I could wait no longer."

A Massachusetts metals plating applicant has written: "After considerable thought and encouraged by lower rates now available, I have elected to go for SBA funds under the (Small Business Investment Act section) 503 program, with the hope that the current rates may stay stable for a few months, at least."

Unfortunately, the section 503 program, a highly complicated one involving certified development companies and long-term financing through the sale of debentures by the Federal Financing Bank, has been interdicted by OMB also. Even in those instances where funds are available through the certified development company, such loans are limited to $500,000. The average loan guarantee sought by the pending applicants is about three times that level.

An Ohio small business has written: "The absolute compliance date for our industry (manufacturer of printed circuit boards) is January 1984. I cannot count on the new Congress being able to do anything that they failed to do in 1982. If anything is to be done, it will have to be done quickly."

An Illinois company has written of how the OMB-forced disruption in this program forced a delay which undercut it in another way: "The legislation passed with respect to industrial revenue bonds (the Tax Equity and Fiscal Responsibility Act of 1982) essentially took them out of reach for organizations like my own. Add to that the stonewalling we have received from the Small Business Administration, and we do not have a very encouraging situation."

We believe that what these small businesses have told us has been written large across the face of all of these applicants, and neither we, nor you, nor SBA, nor OMB, nor the Treasury, nor anyone else in the administration can tell us of the number and nature of another 100 plus applicants which would have come forward with applications in 1981, 1982, and now 1983, had this program not been disrupted and the original authority prohibited by administrative fiat. In light of the substantial, if not staggering, costs to a small business to prepare and pursue such an application, and in light of the prospect that the program may have been permanently impaired by the administration's actions, is there any wonder why no new applications have been received?

Few persons in this capital city have followed as closely as have I what has gone on, or not gone on, inside SBA with respect to this issue. There are some within SBA who believe strongly in the original program, and there are others there who, irrespective of how they would have felt about it at the time it was first proposed in the mid-1970's, believe that what the administration did to it in 1981 is unconscionable. But all within SBA know that they are a part of an incumbent administration and must follow "party line."

In the past several months, for whatever reasons, SBA has given the appearance to the public, to small businesses and to the Administration that it is trying to find a way to make a taxable program work. On February 4, 1983, the Deputy Associate Administrator of SBA for Investment convened a morning meeting of persons within SBA and outside parties to review the status of the current program, to ascertain the demand for tax exempt financing, to determine the status of legislation to restore that funding, and, most importantly to SBA and the administration, to analyze variously proposed measures which, singularly or jointly, would constitute a viable taxable program. I attended that meeting, and I am thankful to SBA for the opportunity to have done so. Others invited represented state pollution control and industrial financing authorities, investment companies and other financial intermediaries, legal counsel to the foregoing, etc. The discussion was direct and informative. Matters touched upon included private sector involvement in processing, administration and risktaking (commercial banks, insurance companies, investment bankers and State authorities), financial vehicles (loan agreements, loan and security agreements, corporate debentures, guaranteed interest certificates, leasing and leveraged leasing), interest rates (fixed, variable and floating) and fees (guarantee fees, processing fees and administrative fees). It has been said by SBA officials since that meeting that the meeting's conclusion was that some sort of taxable program might be feasible. As a general statement, that would be true. As a precise statement, it is not, for there was no agreement, not even an approximation of agreement, as to what such a vehicle would be. As a realistic statement, it is also not true, for the one thing which did clearly emerge was the realization that it would take months, if not much longer, to develop, review, clear, publish, receive and incorporate comments and suggested amendments, republish and implement. In no instance would it assist small businesses in meeting the pollution control and waste disposal requirements imposed upon them by Federal, State and local authorities as rapidly as would an OMB rescission of its own directive to SBA on one hand or the enactment of legislation, like that contemplated by this Committee, on the other.

H.R. 860 and H.R. 2132 constitute important legislation. Their provisions go far to reestablish the tax exempt program, as do those of the bill, H.R. 1173 by Messrs. Conte and Bedell.

We would be ignoring one of the principal realities associated with the restoration of this program if we ignored, however, its problems under the Impoundment Control Act of 1974, the act which gives Congress standing in respect to the impoundment by the Executive of authorities and appropriations granted by Congress. The administration has been able to hide within the provisions of the Impoundment Control Act of 1974. It has inferred that it can do with this SBA program whatever it wishes to do, because Congress has no standing to overturn the administration's unilateral actions, because this program is not within the definitions of the act which would give that authority to Congress. This is a major obstacle. Nothing in H.R. 860, H.R. 1173 or H.R. 2132 amends the Impoundment Control Act of 1974, and the legislation would be simultaneously or sequentially before another committee of the House if it proposed doing that. However, a very strong case can be made that the legislation now before us has gone as far as it can without making such an actual amendment and, further, that it has also stated its intent and the procedures to be followed by the Executive in this regard in the framework of the procedures and the language of the 1974 act. In our opinion, together with the facts surrounding this program and the debate about it, this should constitute adequate grounds for Members of Congress to get into the courts on the matter, if the Executive does after the enactment what it did before the enactment. Thus, the legislation constitutes such a substantial step forward that it may be vetoed by the administration. If that does occur, Congress should override the veto and restore the program and then proceed decisively and immediately against the administration through the third branch of government, the judiciary, if the administration does not yield to the expression of Congress in the matter.

This committee is to be commended for the leadership which it has shown on this and many other matters. Let us work toward the removal of those kinds of barriers which prevented us during the last session from restoring this program.

Mr. MITCHELL. Thank you, very much.

I think that the vast majority of the members of this committee are in agreement, that this is the most cavalier treatment that any administration has ever accorded to small business. It is just unfair on its face. The large corporations can still get their tax breaks——

Mr. TEAGUE. That is correct.

Mr. MITCHELL. In complying with the pollution control laws. And yet this administration has adamantly and stubbornly insisted that this extra cost has got to be borne by small businesses. It is just patently unfair.

And I think that I can assure you that the vast majority of the members of this committee are enormously upset by this disparity in terms of treatment between big and small. We are going to battle as hard as we can.

I cannot think of another illustration that shows a greater contempt, maybe that is not the right word, but certainly it is a contemptuous action to saddle small business with this responsibility.

We want tax exemption plain and simple, and that is what we are going to fight for.

Mr. Smith?

Mr. SMITH of Iowa. Thank you for the statement. I agree that this is one area where I have been unable to understand the rationale for some of the positions taken by the administration. All I can say is that it is apparent they just do not understand the differences between the problems of small business and big business in this regard.

Mr. TEAGUE. That is a very valid point, Mr. Smith. Last year, we noticed in preparing a statement on this issue that in one State in the United States, in 1 month last year, there were more tax exempt bonds issued for pollution control by Fortune 500 corporations than the entire SBA program for the entire Nation for the entire year.

We felt that that was dramatic evidence that this policy put into place by the administration, perhaps not deliberately, but nonetheless consequentially, devastates the ability of small businesses.

I think that one thing needs to be brought forward that I did not have in my statement. It has been said by some of the people in the administration over the last month or 6 weeks that the issue is not nearly as severe now as it was in 1981, because the general improvement in the interest rate picture within the economy would permit small businesses to obtain taxable financing at a significantly lower basis point spread than they could have in 1981.

That overlooks the reality which apparently a lack of hands-on understanding on their part would reflect. It lacks the understanding that under the SBA program, a small business can obtain a loan guarantee on a loan for a 20-year period. That is the average. If a small business has to go today and obtain a commercial loan for pollution control facilities and equipment, and let us say that the basis point spread is one-half of what it was in 1981, the reality is that they cannot obtain a commercial loan for a period today any longer than 5 years.

I think that in all of the experience that I have had with this over the last 18 months, the longest period of time that any of these small businesses have had to obtain an alternative means of financing was 7 years.

And the impact on the stability, the cash flow, the profitability, et cetera, of a small business in having to take a loan of this consequence, and repay it in 5 or 7 years in contrast to 20 years can in fact be sufficiently severe to destabilize the small business. It is just a reality that we have to face.

Second, because of the uniqueness of this particular equipment, there is no way that you can use the value of the facility or plant to collateralize the loan. And quite frankly, the only small businesses that have been able to proceed have been those that have been significantly stronger in terms of their own assets.

Mr. **Smith** of Iowa. And the fact is that the thing makes money for the Government.

Mr. **Teague**. Absolutely. The fund has more than doubled, as you well know, since 1976.

Mr. **Smith** of Iowa. That is all that I have.

Mr. **Mitchell**. Thank you, very much. You have got a firm commitment. Staff reminded me that twice this committee has unanimously gone on record, and we have lost some battles before. But we will continue to fight. This is just too important, it seems to me, for us to accept it.

Thank you, very much, for your testimony.

Mr. **Teague**. Thank you Mr, Chairman.

Mr. **Mitchell**. Before calling the next witness, without objection a statement by Jesse M. Unruh on behalf of the Council of Pollution Control Financing Agencies will be made a part of the record at this point.

Prepared Statement of Jesse M. Unruh, Treasurer, State of California on Behalf of the Council of Pollution Control Financing Agencies

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM JESSE UNRUH, CHAIRMAN OF THE CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY, AND A MEMBER OF THE COUNCIL OF POLLUTION CONTROL FINANCING AGENCIES. THE COUNCIL IS A NON-PROFIT ORGANIZATION FORMED BY LOCAL AND STATE AGENCIES WHICH SERVE AS ISSUERS OF TAX EXEMPT BONDS FOR POLLUTION CONTROL AND SOLID WASTE FACILITIES. THE COUNCIL INCLUDES ASSOCIATE MEMBERS FORM THE FINANCIAL, LEGAL AND INDUSTRIAL SECTORS. COUNCIL MEMBERS HAVE BEEN ACTIVE IN SUPPORTING THE AVAILABILITY OF TAX EXEMPT FINANCING AS AN IMPORTANT PART OF THE NATION'S EFFORT TO ACHIEVE ENVIRONMENTAL GOALS CONCURRENTLY WITH NECESSARY ECONOMIC GROWTH

ON BEHALF OF THE COUNCIL, WE WELCOME THIS OPPORTUNITY TO PROVIDE THE COMMITTEE WITH OUR VIEWS REGARDING THE CURRENT STATUS OF TAX EXEMPT FINANCING OF POLLUTION CONTROL FACILITIES FOR SMALL BUSINESSES.

MR. CHAIRMAN, AS YOU AND THE MEMBERS OF THE COMMITTEE ARE AWARE, ON DECEMBER 31, 1981, THE ADMINISTRATION ISSUED A DIRECTIVE THAT PRECLUDED THE SMALL BUSINESS ADMINISTRATION FROM ENTERING INTO POLLUTION CONTROL LOAN GUARANTEE COMMITMENTS. AT THE TIME OF THIS ACTION, SBA HAD $250 MILLION IN FY 82 AUTHORIZATION AND HAD PROVIDED GUARANTEES ON A TAX EXEMPT BASIS TOTALING ONLY APPROXIMATELY $40 MILLION. THE OFFICE OF MANAGEMENT AND BUDGET HAD ADDITIONALLY DIRECTED THE SBA TO LIMIT ANY FURTHER GUARANTEE COMMITMENTS TO $150 MILLION, WITH THE FURTHER RESTRICTIVE STIPULATION THAT ANY NEW GUARANTEES WOULD BE FOR TAXABLE LOANS ONLY. CONGRESS, IN ITS CONTINUING APPROPRIATIONS RESOLUTION, DIRECTED THAT THIS PROGRAM, AT A MINIMUM, BE MAINTAINED AT A LEVEL OF $175 MILLION. UNFORTUNATELY, OMB MAINTAINED THE FREEZE ON TAX EXEMPT GUARANTEES, IGNORING CONGRESS' INTENT AND DISREGARDING THE HISTORY AND PURPOSE OF THIS CRITICAL PROGRAM.

LAST YEAR, THE HOUSE COMMITTEE ON SMALL BUSINESS TOOK THE NECESSARY ACTION TO REVERSE THIS UNFORTUNATE SET OF EVENTS, REPORTING TO THE HOUSE HR 6086 WHICH INCORPORATED PROVISIONS MANDATING THE REACTIVATION OF POLLUTION CONTROL LOAN GUARANTEES FOR TAX EXEMPT FINANCINGS. THIS BILL WAS PASSED BY THE FULL HOUSE, SUBSTITUTED FOR S. 1947 AND RETURNED TO THE SENATE. UNFORTUNATELY, THE CONGRESS WAS UNABLE TO GIVE FINAL CONSIDERATION TO THIS LEGISLATION PRIOR TO THE CONCLUSION OF THE 97TH CONGRESS. THE ADMINISTRATION PROHIBITION, THUS, REMAINS IN EFFECT. THIS COMMITTEE IS TO BE COMMENDED FOR ITS EFFORTS LAST YEAR TO RETURN THE GUARANTEE PROGRAM TO ITS ORIGINAL PURPOSE.

BECAUSE THAT EFFORT DID NOT SUCCEED, MANY SMALL BUSINESSES HAVE BEEN FORCED TO ABANDON EFFORTS TO FINANCE THE ACQUISITION OF POLLUTION CONTROL EQUIPMENT REQUIRED TO COMPLY WITH THE NATION'S ENVIRONMENTAL MANDATES AND REGULATIONS. NOT ONLY HAS THE ENVIRONMENT SUFFERED, BUT THE ECONOMY AS WELL. IMPORTANT INDUSTRIAL EXPANSION IN THE INNOVATIVE SMALL BUSINESS SECTOR HAS BEEN LOST.

IT IS NOT DIFFICULT FOR LARGE, WELL KNOWN INDUSTRIAL COMPANIES WITH ACCEPTED CREDIT RATINGS TO OBTAIN TAX EXEMPT FINANCING FOR POLLUTION CONTROL FACILITIES. FURTHERMORE, THEIR PROJECTS ARE LARGE ENOUGH SO THAT POOLED BOND ISSUES ARE NOT NECESSARY. HOWEVER, EXPERIENCE INDICATES THAT SMALLER COMPANIES OFTEN CANNOT GAIN EQUAL ACCESS TO THE CAPITAL MARKETS FOR SUCH NON-INCOME PRODUCING INVESTMENTS.

AND WE MUST REMEMBER THAT THE REAL AND SIGNIFICANT ISSUE IN THIS ENTIRE DISCUSSION IS EQUAL ACCESS TO THE LONG TERM, TAX EXEMPT CREDIT MARKETS BY THE SMALL BUSINESS ENTITY ON THE SAME FOOTING AS ITS LARGE BUSINESS COMPETITOR. THE ADMINISTRATION --- THAT IS, OMB AND SBA --- WOULD HAVE IT OTHERWISE.

THEY WOULD CLOUD THE ISSUE. THEY HAVE DIVERTED OUR ATTENTION FROM THE IMPORTANT CONSIDERATION OF EQUAL ACCESS TO THE LONG TERM CAPITAL MARKETS BY REPEATEDLY ASSERTING THAT LOAN GUARANTEES FOR TAX EXEMPT FINANCING FOR SMALL BUSINESSES DISTORTS THE CREDIT MARKETS. I THINK NOT.

FOR CALENDAR YEAR 1981, THE LAST FULL YEAR DURING WHICH THIS PROGRAM WAS PREVIOUSLY AVAILABLE, THE TOTAL AMOUNT OF SUCH FINANCINGS NATIONWIDE WAS ABOUT $85.8 MILLION (OF WHICH $25.5 MILLION WAS DONE IN CALIFORNIA). THIS WAS 2% OF THE TOTAL TAX EXEMPT POLLUTION CONTROL FINANCING OF $4.3 BILLION REPORTED BY THE BOND BUYER FOR ALL BUSINESSES FOR THAT YEAR. IT WAS LESS THAN 2/10% OF THE $46.1 BILLION REPORTED BY THE BOND BUYER OF TAX EXEMPT FINANCINGS FOR ALL PURPOSES DURING 1981. TO BELIEVE THAT SUCH A MINISCULE AMOUNT OF FINANCINGS "DISTORTS THE CREDIT MARKETS" REALLY STRETCHES ONE'S CREDULITY BEYOND ALL REASONABLE BOUNDS.

NO. I BELIEVE THAT THE ADMINISTRATION HAS SIMPLY FAILED TO RECOGNIZE AND TO UNDERSTAND THAT THE PURPOSE OF THE SBA TAX EXEMPT LOAN GUARANTEE PROGRAM WAS TO CORRECT THE MUCH MORE SIGNIFICANT DISTORTION IN THE ACCESS TO LONG TERM CAPITAL MARKETS. THIS DISTORTION HAD HISTORICALLY OPERATED TO THE DISADVANTAGE OF THE SMALL BUSINESS.

THUS, WHAT THE ADMINIST[illegible] PRESENT POLICY CLEARLY DISTORTS IS THE COMPETITIVE ENVIRONMENT IN [illegible] HE BURDENS OF COMPLIANCE WITH ANTI-POLLUTION REGULATIONS F[illegible] EQU[illegible] THEY SHOULD --- ON LARGE AND SMALL BUSINESSES ALIKE. BUT WHERE [illegible] OF LOW COST, TAX EXEMPT FINANCING FALL? CLEARLY, IN 1982, WI[illegible] LOAN GUARANTEES, THESE BENEFITS WERE ALMOST EXCLUSIVELY AVAILABLE TO LARGE COMPANIES WITH MARKETABLE CREDIT RATINGS.

In calendar year 1982 total tax exempt pollution control financings (as reported last month by the Bond Buyer) were $5.9 billion. I cannot speak in detail to the experience in other states. But in California in 1982 we did three separate tax exempt small business financings in amounts from $1.5 million to $3 million without SBA guarantees for a total of $5.9 million. I understand that other states did little or no such financings. In comparison, our California large business qualified financings totaled $141.6 million for 14 companies.

In summary, large businesses continue to benefit from the assistance provided by tax exempt financing --- while the small businesses struggle to stay alive.

The Administration would further attempt to divert our attention from the central issue of equal access to long term credit markets by proposing loan guarantees for taxable financings. This is not a realistic option. It forces a heavier burden of pollution control financing upon the shoulders of those businesses least capable of acquiring the necessary capital. The taxable interest rate cost is more than many of them could amortize economically. The Council urges this Committee to take early action to reverse this unfortunate chain of events.

In my own state of California, we have processed approximately 135 applications for assistance under the tax exempt loan guarantee option. We have not received any applications with the initial intention of financing with a taxable SBA guarantee. However, within recent weeks, two of our applicants for tax exempt financing decided to accept the taxable SBA guarantee option.

I HAVE ATTACHED FOR THE COMMITTEE'S REVIEW A RECORD OF OUR PAST FINANCINGS UNDER THE TAX EXEMPT GUARANTEE (ATTACHMENT A). THERE ARE NINE POOLED AND TWO SINGLE BOND ISSUES TOTALING $67.5 MILLION FOR 71 SMALL INDUSTRIAL CONCERNS. A SECOND ATTACHMENT (ATTACHMENT B) LISTS 61 APPLICATIONS FOR $78.7 MILLION WHICH WERE IN SOME STAGE OF PROCESSING WHEN THE SBA GUARANTEE PROGRAM WAS CLOSED DOWN. ATTACHMENT C PRESENTS AN ANALYSIS OF THESE APPLICATIONS BY SIZE AND INDUSTRY. ALL BUT FIVE OF THESE COMPANIES ARE STILL SEEKING A WAY TO FINANCE THE FACILITIES THAT ARE BEING REQUIRED OF THEM. CLEARLY THESE NUMBERS SPEAK LOUDER THAN ANY WORDS.

THREE COMPANIES, PREVIOUSLY MENTIONED, WERE ABLE TO SECURE ADEQUATE PRIVATE CREDIT SUPPORT WITHOUT THE SBA GUARANTEE TO ISSUE TAX EXEMPT BONDS THROUGH OUR AUTHORITY. AND TWO COMPANIES UTILIZED THE TAXABLE SBA GUARANTEE APPROACH. ATTACHMENT D DETAILS THE COSTS INVOLVED WITH THIS OPTION, INCLUDING A 12.5% COUPON INTEREST RATE. IT ALSO PROVIDES A COMPARISON WITH HYPOTHETICAL TAX EXEMPT BONDS WHICH MIGHT HAVE BEEN SOLD ON THE SAME DAY FOR THESE PROJECTS WHEN THE AA TAX EXEMPT LONG TERM INTEREST RATE WAS 9.50%. WITH EFFECTIVE ANNUALIZED INTEREST RATES OF 11.6% AND 11.9% THE TAX EXEMPT FINANCINGS WOULD HAVE BEEN CLEARLY PREFERABLE TO THE ACTUAL TAXABLE FINANCINGS AT INTEREST COSTS OF 16% TO 16 2/3%.

AS FURTHER EVIDENCE OF THE LACK OF ENTHUSIASM FOR THE TAXABLE GUARANTEE ALTERNATIVE AS A VIABLE OPTION, I CALL YOUR ATTENTION TO THE RESPONSE SBA RECEIVED FOLLOWING ITS RETROACTIVE POLICY CHANGE CONCERNING THE TERMINATION OF THE TAX EXEMPT PROGRAM. SBA NOTIFIED MORE THAN 100 BUSINESSES EITHER TO SWITCH TO THE TAXABLE GUARANTEE OPTION OR FACE WITHDRAWAL OF THEIR APPLICATIONS. IN RESPONSE, ONLY THREE FIRMS (AND POSSIBLY ONE MORE IN THE PAST WEEK OR TWO) OUT OF THIS TOTAL NOTIFIED SBA OF THEIR DESIRE TO SEEK TAXABLE GUARANTEES. CLEARLY, THE LARGE

MAJORITY OF THESE COMPANIES BELIEVE, AS I DO, THAT THE COSTS BECOME PROHIBITIVE UNDER THE TAXABLE GUARANTEE OPTION.

CONGRESS SPECIFICALLY MANDATED TAX EXEMPT LOAN GUARANTEES IN PUBLIC LAW 94-305. ON SEVERAL OCCASIONS LAST YEAR, CONGRESS REAFFIRMED ITS COMMITMENT TO TAX-EXEMPTS AND ADVISED SBA TO MAKE THESE GUARANTEES AVAILABLE. DESPITE THESE CONGRESSIONAL DIRECTIVES, THE SBA AND THE PRESENT ADMINISTRATION CONTINUE TO THWART CONGRESS' INTENT. THE COUNCIL OF POLLUTION CONTROL FINANCING AGENCIES URGES THIS COMMITTEE TO TAKE WHATEVER STEPS ARE NECESSARY TO INSURE THE SPEEDY REESTABLISHMENT OF THE SBA TAX EXEMPT LOAN GUARANTEE PROGRAM. SUCH STEPS ARE CURRENTLY EMBODIED IN HR 2132 AND HR 860, BEING CONSIDERED TODAY.

WE ARE CURRENTLY HEARING ENCOURAGING REPORTS THAT THE RECESSION HAS BOTTOMED OUT AND THAT THE LONG AWAITED ECONOMIC RECOVERY HAS BEGUN. WE SUGGEST TO THE MEMBERS OF THIS COMMITTEE THAT THIS RECOVERY MAY WELL BE GOOD NEWS FOR THE LARGER INDUSTRIAL ORGANIZATION WITH READY ACCESS TO THE CAPITAL MARKETS. BUT THE RECOVERY WILL HAVE A DIFFERENT MEANING FOR THE SMALL FIRM WITH AN ENVIRONMENTAL PROBLEM. IT IS NOT UNUSUAL FOR US TO MEET WITH MANAGEMENT OF COMPANIES IN BUSINESS FOR MANY DECADES UNTIL THEY REACHED THE STAGE OF HAVING ACCUMULATED A NET WORTH OF, SAY, $500,000. NOW THEY ARE FACED WITH A GOVERNMENT ORDER TO INVEST IN AN AIR OR WATER POLLUTION ABATEMENT FACILITY COSTING A HALF-MILLION DOLLARS .... AS MUCH AS THEY HAVE BEEN ABLE TO ACCUMULATE IN 30 OR 40 YEARS. FOR THAT FIRM, YOUR DECISION IS CRITICAL. CAN THEY CONTINUE TO OPERATE CARRYING SUCH A NON-INCOME PRODUCING CAPITAL INVESTMENT BURDEN? IF WE CAN SAY TO THEM, "HERE IS A PROGRAM THAT WILL ALLOW YOU TO SPREAD THIS BURDEN OVER 20 YEARS AND AT THE LEAST POSSIBLE CAPITAL

COST," THEN ECONOMIC RECOVERY MAY HAVE SOME MEANING FOR THEM BECAUSE THEY WILL BE ABLE TO SEE THEIR WAY CLEAR TO STAY IN BUSINESS. WITHOUT THAT MESSAGE THEIR CHOICE IS A GRIM ONE. IN MANY CASES IT MAY WELL BE THE END OF THAT SMALL BUSINESS ENTERPRISE.

IN SUMMARY, MR. CHAIRMAN, THE COUNCIL URGES THIS COMMITTEE TO SET AS ITS KEY PRIORTY:

o IMMEDIATE MARK UP AND APPROVAL OF LEGISLATION ESTABLISHING SPECIFIC POLICY OF CONGRESS WITH RESPECT TO THE AVAILABILITY OF TAX EXEMPT LOAN GUARANTEES FOR POLLUTION CONTROL EQUIPMENT; SATISFACTORY LEVELS OF SUCH LOAN GUARANTEES TO BE PROVIDED; AND RECONFIRM THE DEFINITION OF A QUALIFIED POLLUTION CONTROL LOAN GUARANTEE APPLICANT.

MR. CHAIRMAN, THIS CONCLUDES MY PRESENTATION. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS.

ATTACHMENT A

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
STATUS REPORT - December 31, 1982
SBA GUARANTEED POLLUTION CONTROL FINANCING PROGRAM

First Bond Issue - Seven Companies - 1977 A1-A7 (5.30%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
119	HWL Enterprises	Los Angeles	Water	20	$ 115,000
66	Legallett Tanning	San Francisco	Water	172	1,000,000
118	H. Kramer & Company	El Segundo	Air	240	305,000
17	Leprino Cheese	Tracy	Water	280	1,000,000
74	Pacific Coast Producers	Oroville	Water	475	960,000
99	Philo Lumber Company	Fort Bragg	Air	225	415,000
58	Sebastopol Cooperative Cannery	Sebastopol	Water/SW	P200 S300	825,000
	Total			1,912	$4,620,000

Second Bond Issue - Seven Companies - 1978 Series A1-A7 (5.37%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
39	Anderson Lumber Co.	Redding	Water/SW	32	$ 506,000
51	Arlon Products, Inc.	Santa Ana	Air	180	230,000
49	Brite Plating Co., Inc.	Los Angeles	Water	28	300,000
40	Patterson Frozen Foods	Patterson	Water	P150 S450	900,000
34	Good West Rubber Corp.	Cucamonga	Air	65	190,000
45	SAG Plating	Los Angeles	Air/Water	35	300,000
47	Keysor-Century	Saugus	Air/Water/SW	250	3,309,000
	Total			1,190	$5,735,000

Third Bond Issue - One Company - 1978 Series A (6.07%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
155	Pauley Petroleum Newhall Refinery	Newhall	Air/Water	115	$5,000,000
	Total			115	$5,000,000

Fourth Bond Issue - Eight Companies - 1978 B1-B8 (6.12%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
74	Anodyne, Inc.	Santa Ana	Water/SW	70	$ 435,000
70	Bronze-Way Plating	Los Angeles	Water	82	95,000
20	Farrell-O'Keefe Leasing	Contra Costa	Water	0	100,000
61	CA Electroplating	Los Angeles	Water	43	300,000
62	Sav-On Plating	Paramount	Water	37	225,000
71	Size Control Plating	La Puente	Water	12	75,000
64	Orrell-Keefe, Inc.	Richmond	Air	P75 S25	595,000
21	Western Refuse Hauling	Carson	Solid Waste	380	1,500,000
	Total			724	$3,325,000

- Permanent employees
- Seasonal employees

Fifth Bond Issue - Twelve Companies - 1979 A1-A12 (5.86%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
03	Alloy Metals Co., Inc.	Los Angeles	Air	27	$ 110,000
90	Bonner Packing	Fresno	Water	100	445,000
78	Cal Bumper Co., Inc.	Long Beach	Water	53	285,000
87	Certified Alloy Products	Long Beach	Air	415	380,000
81	H.E. Dyer, Inc.	Paramount	Water	45	290,000
75	Eel River Sawmills, Inc.	Fortuna	Solid Waste	275	2,045,000
72	GCG Corporation	Glendale	Water	15	160,000
11	Home Linen Industrial Supply	Vallejo	Water	100	370,000
95	Leedy Plating, Inc.	Oakland	Water	20	370,000
08	Olympic Plating & Polishing Inc.	Los Angeles	Water	30	145,000
04	Orrell-Keefe, Inc.	Richmond	Air	P75 S25	100,000
89	Vernon Paving Co.	Irwindale	Air	85	300,000
	Total			1,263	$5,000,000

Sixth Bond Issue - Seven Companies - 1980 A1-A7 (7.47%)

68	Alta Plating, Inc.	Sac/Oakland	Water	35	$ 465,000
34	American Metal Decorating, Company	Fremont	Air	132	450,000
10	Farrell/O'Keefe Leasing	Contra Costa	Water	0	100,000
39	Refiners Marketing Co.	Terminal Island	Water	31	395,000
12	Solvent Coating Corp.	Torrance	Air	19	420,000
27	WCS International	Anaheim	Solid Waste	50	3,135,000
26	Pacific Steel Casting	Berkeley	Air	290	2,285,000
	Total			557	$7,250,000

Seventh Bond Issue - Five Companies - 1980 B1-B5 (7.47%)

31	Al's Plating Company	Los Angeles	Water	75	$ 355,000
27	CA Waste Removal Systems	Lodi	Solid Waste	38	1,025,000
37	Electro Adapter, Inc.	Chatsworth	Water	250	320,000
35	New Fashion Cleaners	Los Angeles	Air	58	390,000
21	WRH Industries	Carson	Solid Waste	490	3,500,000
	Total			911	$5,590,000

Eighth Bond Issue - Four Companies - 1980 C1-C4 (9.03%)

41	A&S Glass Fabrics	Los Angeles	Air	19	$ 145,000
16	BKK Corporation	Wilmington	Solid Waste	200	3,600,000
66	Carpinteria Welding	Carpinteria	Air	125	775,000
55	Detergents Inc.	Los Angeles	Air	10	955,000
	Total			354	$5,475,000

Ninth Bond Issue - Ten Companies - 1981 A1-A10 (9.27%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
74	Anaheim Foundry Co.	Anaheim	Air	350	$ 145,000
57	Century Bumper, Inc.	San Jose	Water	65	115,000
60	E-D Coat, Inc.	Oakland	Water	18	875,000
76	Four-D Metal Finishing	Sunnyvale	Water	19	400,000
63	Jeffries Brothers	Kern County	Air	20	575,000
67	Marin Sanitary Service	San Rafael	Air/SW	55	4,055,000
18	MacLeod Metals Company	Southgate	Solid Waste	20	500,000
43	Norge Village Dry Cleaners & Laundry	Yucca Valley	Air/Water	11	160,000
61	Symtron Corporation	Mountain View	Air/Water	300	875,000
81	Salinas Disposal Service	Salinas	Solid Waste	69	1,775,000
	Total			927	$9,475,000

Tenth Bond Issue - One Company - 1981 Series B (10.18%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
88	Security Environmental Systems, Inc.	Long Beach	Haz. Waste	15	$ 485,000
	Total			15	$ 485,000

Eleventh Bond Issue - Nine Companies - 1981 C1-C9 (10.95%)

pp. #	Company	Location	Type Pollution	Jobs Affected	Amount of Loan
54	Cal-Aurum Industries	Westminster/ Long Beach	Water	52	$ 960,000
98	Case Swayne Co., Inc.	Santa Ana	Water	250	830,000
89	DeGarmo Street Dump	Sun Valley	Solid Waste	15	4,470,000
23	Lakewood Oil Service	Fontana	Haz. Waste	20	5,000,000
18S	MacLeod Metals Company	Southgate	Air/Water	35	4,490,000
85	Frank Moore dba Joy Cleaners/Markee Cleaners	Van Nuys	Air	14	410,000
02	Santa Clara Plating	Santa Clara	Water	16	125,000
87	Tiodize Company, Inc.	Huntington Beach	Air/Water	42	2,025,000
18	Triple J Pacification Facility	Vernon	Haz. Waste	33	1,265,000
	Total			477	$15,575,000
	TOTAL ALL PROJECTS			8,445	$67,530,000

ATTACHMENT B

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

Applications for which inducement resolutions were originally adopted under the SBA Guaranteed Pollution Control Financing Program, the status of which is unclear as of December 31, 1982. During the past 12 months, each of these companies have been contacted at least once and all but five have expressed a continuing interest to complete the financing if a tax exempt loan guarantee program can be made available to support a pooled bond issue. Three were financed tax-exempt without an SBA Guarantee in 1982, and two (Trend West and WCS International) recently did separate taxable financings with SBA guarantees. (Comparative financing costs are shown in Attachment D.)

App. No.	Company	Location	Jobs Affected	Amount of Financing
202	Action Transfer Systems, Inc.	Gardena	20	$2,640,000
309	Aero Quality Plating Co.	Oakland	17	$ 110,000
286	Allied Media Technology	Sunnyvale	75	$ 800,000
168A	Alta Plating & Chemical Co.	Sacramento/ Oakland	27	$ 110,000
334	Amador County Environmental Svs.	Amador Co.	5	$ 355,000
197	American Brass & Iron Foundry	Oakland	200	$2,570,000
195A	American Electro Finishing, Inc.	Oakland	24	$ 285,000
389	Bay Cities Disposal Co., Inc.	San Diego	28	$ 887,000
374	Benton Plating Industrial Services	Ontario	41	$ 310,000
360	BKK Corporation	W. Covina	249	$1,400,000
369	Carmel Marina Corp.	Carmel	59	$1,280,000
337	Castaic Clay Manufacturing Co.	Castaic	70	$6,000,000

344	Chem-Tronics, Inc.	El Cajon	361	$ 905,000
329	Community Linen Rental Services	LA/Long Beach	456	$ 500,000
224	Continental Plating Co., Inc.	Oakland	27	$ 76,000
206	Crosby & Overton, Inc.	Long Beach	150	$1,230,000
362	Decor-Ative Specialties	Irwindale	200	$1,320,000
255A	Detergents, Inc.	Santa Fe Springs	11	$ 345,000
305	Drilube Co., Inc.	Glendale	64	$1,000,000
250	W. H. Easter	Bakersfield	14	$ 845,000
310	Electrofilm, Inc.	Valencia	231	$ 497,000
311	Embly Ranch	Various Counties	311	$3,200,000
265	Energy Recovery Resource Group, Inc.	Irwindale	3	$2,400,000
349	Environmental Services Division	LA/Long Beach	15	$4,626,916
278	Farmers Cooperative Gin	Buttonwillow	60	$2,250,000
252	Fruitvale Irrigation District	Bakersfield	1	$1,497,000
316	Gaylord Inspection Laboratory	Long Beach	20	$ 330,000
373	General Circuits, Inc.	Menlo Park	40	$ 300,000
335	Harich Construction Co.	Heaps Peak	35	$1,136,526
322	Hobart Wholesale Dry Cleaning	LA	40	$ 250,000
282	Jaybee Manufacturing Co.	LA	400	$2,270,000
269	Kimco Manufacturing Co., Inc.	Cerritos	75	$ 300,000
262	Lutz Tire Company	Benicia	35	$ 400,000
350	Magna Plating Co.	Burbank	18	$ 240,000

264	Metropolitan Waste Disposal	Montebello	106	$3,400,000
249	Model Laundry	El Sobrante	9	$ 95,000
296	Monitor Plating & Anodizing	Anaheim	50	$ 250,000
324	Mountain Disposal Services, Inc.	Crestline	11	$2,000,000
292	North Valley Disposal Services	Chico	42	$ 946,000
319	Oakland Bean Cleaning	Knights Landing	35	$ 350,000
199	Omega Chemical Co.	Whittier	7	$3,000,000
320	Optical Sciences Group	Petaluma	80	$ 273,000
401	Pacific Steel Casting	Berkeley	300	$ 400,000
384	Pacific Sanitary Disposal	Santa Rosa	25	$1,690,000
308	Rainbow Disposal Co.	Huntington Beach	55	$2,121,000
355	San Valle Tile Kilns	Corona	70	$3,500,000
277	Smilo Chemical Co.	Oakland	11	$ 300,000
297	Petaluma Refuse & Transfer Station	Santa Rosa	10	$1,025,000
330	Specific Plating Co., Inc.	Commerce	76	$ 477,000
399	Sunset Fibre Industries	Irvine	169	$4,100,000
194	Svenhard's Swedish Bakery	Oakland	304	$ 500,000
388	Trend West Furniture Manufacturing 1/	Carson	385	$ 470,000
375	United People's Laundry Services, Inc.	San Francisco	27	$ 277,000
300	United Whitehouse Cleaners	San Francisco	7	$ 180,000
332	Valley Metal Works, Inc.	El Cajon	85	$ 430,000
325	Vista Paint Corp.	Stanton	90	$1,125,000
398	WCS International	Anaheim	50	$1,000,000
352	WCS International 1/	Anaheim	(50)	$2,170,000

1/ Financed taxable SBA Guarantee February 1983

377	Herzog Contracting Corp. 1/	San Diego Co.	35	$2,950,000
351	American Waste Container Services, Inc. 1/	Rancho Cordova	27	$1,500,000
258	Waste Recovery Systems, Inc. 1/	Los Angeles	4	$1,500,000
	TOTALS		5,452	$78,694,442

1/ Financed tax exempt, NO SBA guarantee 1982.

ATTACHMENT C

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

SMALL BUSINESS APPLICATIONS
PENDING - December 31, 1982

Industry	Number of Companies	$200,000 and under	$200,001-500,000	$500,001-999,999	$1,000,000+
Agriculture & Related Products	2		1		1
Chemical & Allied Products	4		2	1	1
Electronics	2		2		
Food Processing	2		1		1
Forest Products	2		1		1
Hazardous Waste Projects	1				1
Industrial Laundry	6	2	3		1
Metal Platers	10	4	6		
Metal Processors & Recyclers	5	1	1	1	2
Petroleum Services & Products	2				2
Solid Waste Disposal & Recycling Centers:					
Landfill	7			1	6
Transfer Stations	7		1	1	5
Waste to Energy	1				1
Other	7		2	1	4
TOTALS	58	7	20	5	26

ATTACHMENT D

WEST AMERICA--TREND WEST	Taxable Bond Sold February 4, 1982	Tax Exempt Alternate ("Sold" Same Day)
Project Costs Being Financed (Net Proceeds of Bond Sale)	$594,068.61	$595,630.00
Deposit to Excrow Fund	26,037.00	19,740.00
Underwriter's Discount 1/	44,507.25	21,300.00
SBA Guarantee Fee	71,987.14	54,575.00
SBA Processing Fee	900.00	900.00
CPCFA Fee 4/	-0-	355.00
Costs of Issuance	17,500.00	17,500.00
Face Amount of Bonds Sold	$755,000.00	$710,000.00
Coupon Interest Rate 2/	12.5%	9.25%
Total Debt Service (P&I)	$2,082,813.00	$1,579,038.00
Total Interest (I)	$1,227,813.00	$ 869,038.00
Monthly Payment	$8,679.00	$6,580.00
Effective Annual Percentage Rate	16.67%	11.90%

WCS INTERNATIONAL	Taxable Bond Sold February 4, 1982	Tax Exempt Alternate ("Sold" Same Day)
Project Costs Being Financed (Net Proceeds of Bond Sale)	$1,519,599.30	$1,521,780.00
Deposit to Escrow Fund	64,260.00	49,665.00
Underwriter's Discount 3/	82,563.55	53,550.00
SBA Guarantee Fee	177,677.15	137,320.00
SBA Processing Fee	900.00	900.00
CPCFA Fee 4/	-0-	1,785.00
Costs of Issuance	20,000.00	20,000.00
Face Amount of Bonds Sold	$1,865,000.00	$1,785,000.00
Coupon Interest Rate 2/	12.5%	9.25%
Total Debt Service (P&I)	$5,140,750.00	$3,973,088.00
Total Interest (I)	$3,275,750.00	$2,188,088.00
Monthly Payment	$21,420.00	$16,555.00
Effective Annual Percentage Rate	16.02%	11.60%

1/ 5.895% with taxable issue; 3.0% with tax-exempt issue.

2/ Single maturity, single coupon with taxable; Serial bonds, average coupon rate with tax-exempt.

3/ 4.427% with taxable; [illegible] with tax exempt.

4/ CA Pollution Control [illegible] Authority [illegible]

Mr. **Mitchell** [continuing]. Mr. Thomas Wincek, is chairman of the Vietnam Veterans Foundation in Washington, D.C. Thank you for being here.

TESTIMONY OF THOMAS WINCEK, CHAIRMAN, VIETNAM VETERANS FOUNDATION, WASHINGTON, D.C.; ACCOMPANIED BY ROBERT SNIFFEN, EXECUTIVE VICE CHAIRMAN, AND TOM BURCH, GENERAL COUNSEL

Mr. **Wincek**. Thank you, Mr. Chairman.

I appreciate the opportunity to come before this committee. Before I begin my testimony, I would like to introduce two other people that I have with me here to provide any information, if necessary. On my far right is Mr. Robert Sniffen, the executive vice chairman of the Vietnam Veterans Foundation. Bob is not a Vietnam veteran, but he is a disabled veteran. On my immediate right here is Mr. Tom Burch, general counsel to the Vietnam Veterans Foundation. Tom is a former Green Beret from Vietnam, and currently owns a small business, and is operating a law practice here in Washington.

Mr. Chairman, my name is Tom Wincek. I am chairman of the Vietnam Veterans Foundation, and a Vietnam veteran. I welcome the opportunity to come before you, and give our opinion as to how programs are proceeding in the SBA with regard to how they affect Vietnam and disabled veterans.

Mr. Chairman, I know that Mr. Smith and yourself are World War II veterans. Mr. McDade, who just came in, I am not sure whether you are a veteran or not.

Mr. **McDade**. This war.

Mr. **Wincek**. Anyway, I think that part of the problem that we have come across over the last—I guess going back to 1974 when the Small Business Act was passed that provided special consideration provisions for veterans. I guess over the last roughly 9 years, the SBA has toyed with how are they going to implement the provisions that veterans have rightfully earned by their service to their country in wartime.

Public Law 93-237 and its regulations does require the SBA by regulation and by law to provide special consideration to veterans. And this was qualified by including that special workshops and training programs would be provided, local media campaigns. And, also, in every SBA office, that there would be a Veterans Affairs Officer, a Veterans Procurement Officer, and a Veterans Loan Officer.

None of these people do exist, have never existed. Nor in fact has the SBA provided the special consideration provisions in any meaningful way over the last 9 years. There have been eight hearings in the House and the Senate over the last 2 years either directly or indirectly on this issue of small business development for Vietnam veterans.

Uniquely enough, the House hearings, the four or five that the House has held, have all been in the Veterans' Affairs Committee rather than here in the Small Business Committee. And over on the Senate side, the Committee on Small Business has held both joint hearings with the Veterans' Affairs Committee, and hearings on oversight of the SBA.

If there is anything that has come out of the eight hearings that has been consistent is the calling for the full implementation of the law. Members of Congress in sound and fury claiming that Vietnam veterans have earned these entitlements, and that it is appalling that the SBA does not enforce them, that we want full implementation of the law.

The SBA on the other hand comes back saying, Members of Congress, if they are really serious, would appropriate money so that we could run a program for veterans, as they provide for other constituency groups.

This catch-22, Mr. Chairman, has led to, I guess, frustrations and feelings among the veterans' community enough as to where Congressman Montgomery, chairman of the House Veterans' Affairs Committee, introduced Public Law 97-72, which did eventually pass, that provided a small business loan program in the Veterans' Administration.

The President did sign this law into effect in December 1981. And previous to asking for any appropriations of a loan program that would be taken away from the SBA and put into the Veterans' Administration where it was uniquely for the World War II veteran who had gone and could go to the Veterans' Administration for a small business loan program.

Then when the SBA was created in 1953, that became the place predominantly where citizens would come to get loans. Because the committee after their extensive hearings felt that SBA would never fulfill the obligation to veterans, that was the reason that they decided to put it in VA.

Before asking for any appropriations, they had asked for a SBA task force to study the problem, and to look into the initiatives of what was happening in that area. For 9 months, that committee met. One of its most active members at that time was Mr. Jim Sanders, who was the Associate Administrator for Management Assistance, a veteran himself, screaming that if he were in charge here, that veterans programs would be fully implemented.

Little did he know at that time that he would later become the Administrator. And after we had gone through 9 months of meeting on a regular basis and a grandiose report, he came out with a policy statement last May for the agency saying that veterans would be a priority group of the SBA, and created an Office of Veterans' Affairs within that agency to carry out the mandates.

Never was there any money asked for by the administration or the SBA to implement veterans' programs. And it was a last minute effort, I guess, on behalf of Lowell Weicker over on the Senate side, and Neal Smith, and I believe yourself, through your staff, Joe Sobota and George Grant, that we were able to interest. And a $3 million appropriation was passed, and signed into law by the President specifically for the Office of Veterans' Affairs for it to carry out veterans outreach and technical services programs.

There was also another $25 million that was earmarked specifically for direct loans for Vietnam veterans that was part of the original agreement that Congressman Boland made with Congressman Daschle not funding the VA loan program.

So what they did was basically earmark in this fiscal year, 1983, an appropriation of $25 million for Vietnam veterans direct loans.

Mr. Chairman, I guess that the frustrations that we have felt here for 9 years is that it gets back to what are the priorities and policies of the country. It used to be that men and women serving their country honorably in wartime was an act of citizenship most deserving of one's respect.

And that was backed up by entitlements, not benefits. And I think that there is a distinction there. Because entitlements are earned by service to country in wartime. The Vietnam veterans now number 10 million strong with an average age of 37. Contrary to popular belief 9 million of us get up every day, go to work, and are productive.

And many of us own our own businesses or are thinking of going into business. And one of the agencies that is supposed to be given new entitlements is the SBA. Not all programs that veterans are eligible for are in the Veterans' Administration.

As the committee is going forward and looking at the 1984 and 1985 appropriations, once again I notice for the Office of Veterans' Affairs that was newly created in the SBA, and $3 million appropriated, that there are no provisions in the 1984 or 1985 budgets for the Office of Veterans' Affairs.

And I think that the oversights that continually happen on behalf——

Mr. MITCHELL. Could I interrupt you for just a moment?

Mr. WINCEK. Yes, sir.

Mr. MITCHELL. You are saying in the budgets that SBA has proposed?

Mr. WINCEK. No——

Mr. MITCHELL. That is what we put in our budget that was passed by the House.

Mr. WINCEK. That has been put in there?

Mr. MITCHELL. I am sure that it was in there, but we can check it.

Mr. WINCEK. I guess looking at the summary of H.R. 2132, going over the line items, there is no provision not only for the direct loan program for Vietnam veterans. It is in the 1983 budget, but not the 1984 or 1985. Nor is there any money to carry on the Office of Veterans' Affairs that has $3 million working right now for this fiscal year.

And I think that another grave oversight, Mr. Chairman, that I think is symbolic of the agency's attitude toward veterans, particularly Frank Swain in this case, who is the Chief Counsel of Advocacy, a nonveteran who has never served his country in the military, but in a recent report to the President, a thick volume mandated by the Congress where the President and the SBA would report the state of the small business or its actions.

Even though the SBA had symbolically come forward with policy statements, new programs, claiming all these things that it is going to do, there is not one word mentioned in this report, submitted last month, of the war veteran. Nor was it in the previous year, even though Frank Swain was the chairman of the veterans' task force that was created when the President did not authorize any money for the VA loan program for Vietnam veterans.

I guess that the thing that is most concerning to us, Mr. Chairman, is that one, this committee in looking at its authorization levels for fiscal 1984 and 1985, that $3 million has been set aside this year for the Office of Veterans' Affairs.

And considering that there are 10 million Vietnam veterans, average age 37, that this money is far short of being able to fulfill the Public Law 92-236 provisions for veterans. And that more money be increased, and we have suggested that this be up to $15 million from the current $3 million.

In fiscal 1983, there is a set-aside of $25 million of the direct loan program for Vietnam veterans. In the hearing that took place on March 25, the SBA came before the House Veterans' Affairs Committee, and had qualified and clarified that the $25 million would be in addition to the $25 million that Vietnam veterans were getting previous to that in 1982 and 1981.

So we did not get a line item of $25 million, and actually get less money than we did the previous 2 years. Then, also, in the guaranteed loan program, Mr. Chairman, one of the things that has been talked about is that in a $3 billion appropriation, there is a big distinction that is constantly being used against the Vietnam veteran.

And that is one, when they are trying to get the SBA to look good, they broaden the category to include all veterans. And when they are trying to single in on the Vietnam veteran—and there is a big difference. There are 30 million living veterans from World War II, Korea, and Vietnam.

And if you use that large of a constituency and their families, that is roughly around 100 million people. So what they do when they are trying to show in any type of measurement or standard our veterans actually getting their fair share of the veteran pie, they fare far less than what they represent in the general population when you consider the fact that veterans are 99 percent male of households.

In the Vietnam war, of the 10 million that served, there were only 186,000 women that were included in there. So it is predominantly 9.75 million men of the Vietnam era.

So I guess that what we are looking for is making sure that the Vietnam programs that SBA has come out on a continuous basis of supporting is actually implemented. I think that it was a surprise to them at the last minute when Congressman Smith, and yourself, and Senator Weicker did put $3 million in there for the Office of Veterans' Affairs, and now they are having difficulty spending the money.

Yesterday at a breakfast, I asked Mr. Duberstein if it was the policy of the White House to not spend that $3 million that was appropriated for the Office of Veterans' Affairs, and he blatantly said that it was not, and he said to call over to OMB.

Yesterday, following up on those calls to OMB, they had said, too, that it was not the policy of the administration not to spend that $3 million. More that we have examined over at SBA the programs, they virtually did not appoint a competent Director of Veterans' Affairs. It was promised that if money would come into that division in the SBA, that a director would be appointed, and also some of its supporting staff.

At this point, they took roughly a leftover that has been hanging around in the SBA, one of these G–15, step 10 with no assignments, and made him the Director of Veterans' Affairs with virtually no experience, and no availability how to implement this program in any meaningful way.

So I guess that by coming here today, Mr. Chairman, Mr. Smith, and Mr. McDade, that we would hope that finally somebody would try to hold the SBA accountable. I noticed an editorial in the Times 2 days ago that said that the SBA dollar for dollar is the most scandalous agency in Government.

I think that one of the things that has been a constant problem with ourselves is hearing the SBA officials continually patronize the veterans, because no one is going to be against veterans. How can you be against free enterprise for veterans. That is about as mom and apple pie as you can get.

But when they actually come down to implementing the programs, veterans' affairs is put on a low priority. You have probably never heard it brought up before this committee with the extensive hearings that you have here on a continuous basis with the SBA.

Hopefully, by us coming here today, this thing could be changed around. Because even to this day, if you do enlist in the military, and go down to your recruiter, and ask what are my benefits if I do serve honorably, they are going to talk about the SBA provision that you will have coming to you, specially for the Vietnam veteran, which in 1974, a year after the war ended, these veterans provisions were passed. Since our return, 9 years have gone by, and very little has been done to fully implement this program.

Mr. MITCHELL. Thank you. You are experiencing what many of us as Members of Congress experience. It is the most frustrating thing to try to get an agency to perform. Certainly, I think based on your testimony that whatever we do on the final version of this piece of legislation, on this legislation before us, I think that we need to earmark at least in report language that we want a breakdown of how the veterans, moneys are spent, that we want it by categories—World War II, the Korean conflict, and the Vietnam era.

That is the minimum that we could do to maybe begin to focus some attention on your problem. All I can say is that I think that we are all committed to the program for the veterans. Yesterday in a hearing, I made a statement, and some took umbrage at it, but I said that I do not like for the Congress to legislate in a fashion to show an agency how to run its business.

But that is being forced on us, and particularly with the Small Business Administration. I think that there ought to be a separation between the executive branch and the legislative branch. But when you run into situations such as we have confronted with the Small Business Administration, we are just going to have to legislate how they should operate when they will just deliberately not spend money on occasion.

It is not the best way. I do not think that it is the best way for Congress to have to operate. But we have no choice. Nine long years, no implementation. It is other areas in addition to the veterans. But I will just make a commitment. We do have a concern.

I do not visit over at the Small Business Administration very much, because I am afraid that I will not get out alive. I think that many of the members share the concern particularly about the failure to act in a forthright fashion on behalf of the Vietnam veterans.

Mr. SNIFFEN. Mr. Chairman.

Mr. MITCHELL. Yes, sir.

Mr. SNIFFEN. In addition, as you will see in our testimony, we actually call for a line item, a set-aside. If you do not have your own line, you really are not getting your needs addressed. In addition to calling for direct loan moneys, and designated authority levels to get set-asides for veterans—your bill, specifically section 5, of H.R. 2132 is very interesting to us, and we are very supportive of that.

We can think of no better time to be doing job training, and placement, and specifically as it is spelled out in H.R. 2132, that disabled veterans and veterans of the Vietnam era will be one of the priorities. Your other priorities of displaced workers and long-term unemployed clearly will include Vietnam veterans.

So in our view, there is nothing more timely than what you are doing in that area. I would like to show you, or provide for the record that it is needed. It is probably needed more than we have been led to believe by the administration up to this point.

But on March 28, 1982, in USA Today, they had some unemployment statistics for Vietnam veterans. And continually, these rates, say age 25 to 29, increased dramatically over last year from 1982 to 1983, from 13.9 to 21.8 percent.

Nonveterans in the same age groups only increased 2.7 percent. During the same period, Vietnam veterans, age 30 to 34, were unemployed at a rate of 12.5 percent while nonveterans in the same age group were unemployed at a rate of 9.3 percent.

So, as you can see, in all age categories, Vietnam veterans are facing more severe unemployment. Also, I would like you to know that the House Veterans' Affairs Committee is considering legislation to create a jobs training bill over in the Veterans' Administration.

I would like to briefly comment that I do not believe that your jobs effort will conflict. Rather I think that it will supplement. It is going to be 4 to 6 months before the VA program is in place. If your program even could fill the gap until their program were passed.

But the Congress, other committees, are very seriously considering, you know, jobs training, jobs placement program for Vietnam veterans. Your initial effort there, I think, is very good. Because small businesses, as we know, is where most of the jobs are created.

So our support for the bill, for the increased direct loan level, the increased guarantee loan level, we would like to offer that strongly again with the amendments and the types of things that we recommend in our testimony as far as spelling out specifically how much in direct loans in 1984, and how much in direct loans in 1985 will go for Vietnam veterans, and that would be helpful, Mr. Chairman.

Mr. MITCHELL. Thank you. That additional documentation would be helpful to us, if you would submit it.

Mr. **Sniffen**. One more thing that I want to bring to your attention.

Mr. **Mitchell**. Sure.

Mr. **Sniffen**. You will probably like this. In your home State, which is my home State, I am from Maryland, we have been able to create with Senator Frank Comenda a small business council for disabled and Vietnam veterans. It was passed by the legislature in Maryland and will take effect on July 1.

It will consist of 15 people appointed by the Governor from all walks of life: the banking industry, the veterans' organizations, and the Government. And it is going to be a very sincere effort to start looking and identifying the Vietnam veteran-owned businesses in Maryland, to educate them as to the entitlements that are available to them, and to provide them with assistance in getting loans and other programs.

Steny Hoyer of Maryland has offered his support for this effort. What we do fear, Mr. Chairman, is that this $3 million is sitting over there in SBA, and they cannot find ways to spend it. Here is a newly formed committee which surely could use some seed money to get started. But they are going to resist it, because they did not create it. An SBA official does not chair it, nor do they politically control it.

So it is prototype; it is a model. We want to look at small business development centers for Vietnam veterans.

Mr. **Mitchell**. Sure.

Mr. **Sniffen**. Maryland is as good a place to start as any. Because it is close, because it is our home territory, because we have the ability to pass this, and because we have the support of State government at this time there, we feel that we can do a lot there.

But we feel that SBA will resist on funding, and providing actual assistance. Hopefully, you can help us there.

Mr. **Mitchell**. I will try. I was aware of this program, and it dovetails in with another effort that is being made in the State of Maryland and the city of Baltimore, and that is the GBC [Greater Baltimore Committee].

It is a new committee to actually pick up Vietnam veterans, and match them in a job with members of the Greater Baltimore Committee. So these two really dovetail.

Mr. **Sniffen**. Yes, sir.

Mr. **Mitchell**. Thank you.

Mr. Smith.

Mr. **Smith** of Iowa. I just want to say that I am glad to hear your testimony. And I am sure that you are aware, also, that the administration is vigorously opposing any direct loans for any purposes. It makes it doubly hard when they send up budgets with no direct loan money for any purpose. It makes it very difficult. But we will do what we can.

Mr. **Wincek**. We appreciate your effort, Mr. Smith, in getting that budget deferral by OMB overridden, which did contain $25 million for the Vietnam veteran program. Now it is getting them to spend the money. That is the other part of it.

Mr. **Smith** of Iowa. That is all.

Mr. **Mitchell**. Mr. McDade.

Mr. McDade. I have no questions. I am happy to hear your testimony. We will do all that we can to help.

Mr. Wincek. Thank you.

Mr. Mitchell. Gentlemen, thank you, very much. Keep the good fight up. Be like some of us in Congress. We get knocked down 9 times a day, and then get up the 10th time, and beat the hell out of somebody.

Mr. Sniffen. Mr. Chairman, they do not like to see us coming at SBA.

Mr. Mitchell. Well, join me.

Mr. Wincek. Well, the World War I veteran is still waiting for his pension. So I guess that we have only waited 10 years for some of our entitlements.

Mr. Mitchell. Thank you, gentlemen. Thank you, very much.

[Mr. Wincek's prepared statement follows:]

PREPARED STATEMENT OF THOMAS WINCEK, CHAIRMAN, VIETNAM VETERANS FOUNDATION, WASHINGTON, D.C.

Mr. Chairman and members of the subcommittee, thank you for granting our organization the opportunity to appear before you today. The Vietnam Veterans Foundation was incorporated in 1979 as a national nonprofit organization. The VVF was founded on the basic concept that this nation's ten million Vietnam veterans constitute a vital national resource. Our active mission is continuous education regarding the small business and economic development needs of this very special group of citizens.

I am Thomas Wincek, Chairman of the VVF. I am accompanied by Robert Sniffen, Executive Vice Chairman and J. Thomas Burch Jr., who is the Foundation's general counsel.

Mr. Chairman, while this is our first appearance before your particular Subcommittee, the VVF has appeared before some ten other Subcommittees and full Committes of the Congress since March, 1980 on small business issues vis a vis the ten million Vietnam veterans and the over three million disabled veterans of this nation.

Our organization was a major force in convincing the 97th Congress that this group was indeed a worthy and visable small business constituency. As a result of our advocacy efforts, the 97th Congress provided $25 million for direct loans under Public Law 97-72 and $3 million for the Small Business Administration to carry out the "Special Consideration" provisions of Public Law 93-237. Public Law 93-237 was enacted in 1974 but never received any appropriations to carry out the Congressional intent and mandates of this law. That is, until this past Congress intervened.

We wish to extend our appreciation to Chairman G. V. (Sonny) Montgomery of the House Veterans Affairs Committee; to Neil Smith of your full Committee and to yourself, Mr. Chairman, for your role in this significant and symbolic victory for veterans.

As you well know, it took the extraordinary effort of the House to disapprove the OMB-SBA-Administration attempt to prevent direct loan funding for fiscal year 1983. We are well aware that any direct or guaranteed loan moneys for fiscal years 1984 and 1985 will emanate from your committee's jurisdiction.

In fact, we are convinced that further improvements for veterans programs under the SBA will need to be developed and legislated by the Small Business Committees of the Congress. Thus, today we will define our remarks to the bills before your subcommittee. We do want you to know that there are numerous small business issues affecting veterans that our organization intends to bring before you during the 98th Congress. These issues will run the gamut from direct and guaranteed loans; loan packaging; outreach services; management, technical and procurement assistance programs; the need for veteran small business development centers to exporting opportunities.

The foundation looks forward to working with you, other pertinent Subcommittees and with your staff, to ensure that Vietnam veterans are "screened in" all SBA programs.

Mr. Chairman, we will now turn our attention to H.R. 2132. Our overview is that this proposed legislation embodies progressive and positive action on behalf of the nation's small business community. The program levels and authorizations in direct and guaranteed loans for fiscal year 1984 and fiscal year 1985 are appropriate and necessary to the country's economic recovery. The VVF offers its strongest support for the increases in direct loan maximum levels of $600 million for fiscal year 1984 and fiscal year 1985. Similarly, we endorse the guaranteed loan levels of $3 billion for fiscal year 1984 and the increase to $4 billion in fiscal year 1985.

Direct and dynamic action, such as this is the only way our nation will ever recover from the hard economic times we have faced over the past 2 years. Further, it has been well documented that a majority of newly created jobs are a direct result of small businesses. For these and many other common sense reasons, the VVF will do all we can to assist passage of these particular sections of the bill.

There is one substantive change we would strongly recommend as an amendment to sections 1 and 2 of H.R. 2132. This legislation if enacted would "earmark" "set aside" or "line item" $405 million in general direct loans, $43 million for handicapped loans, $138 million for economic opportunity loans and fourteen million for energy related loans. As part of "screening in" Vietnam veterans into the available loan moneys of the SBA, we call upon the subcommittee to spell out specific dollar amounts to be earmarked for Vietnam veterans as part of fiscal year 1984 and fiscal year 1985 direct loan program levels and authorizations.

It is suggested that general direct loan levels be reduced from the suggested $405 million to $330 million for both fiscal year 1984 and fiscal year 1985. The remaining $75 million should be clearly line itemed out in the proposed sections of the bill. $75 million would be set aside for Vietnam veterans in each fiscal year.

Mr. Chairman, Public Law 97-72 and Public Law 97-377 ensured that a total of $50 million in direct loans would be available in fiscal year 1983 for Vietnam veterans. We feel the increases suggested for this group of 10 million citizens, defined amount of a minimum of $75 million, would surely allow Vietnam veterans seeking business loans to believe that Congress has finally recognized their needs.

We further suggest this type of Vietnam veteran line item be included in the guaranteed loan program levels and authorizations of H.R. 2132. Of the $2,670,000,000 suggested for fiscal year 1984 for general guarantee loan levels, the VVF recommends that $500 million be earmarked as a designated level of lending authority for Vietnam veterans: $600 million for the $3,564,000,000 called for in fiscal year 1985 guaranteed loan levels should be specifically earmarked for this group.

Availability of direct and guaranteed loans for Vietnam veterans must be spelled out in all future proposals if they are to be included rather than excluded from the economic mainstream. If further discussions and clarifications are necessary in this area, the Foundation is eager and prepared to meet with you or your staff to seek inclusion of these or similar amounts on behalf of our constituency.

In support of this request, Vietnam veterans received $135 million in SBA guaranteed loans in fiscal year 1980, and $185 million in fiscal year 1981. In fiscal year 1982, the guaranteed loan levels for Vietnam veterans fell to $156 million. As you can see, we can never be sure this group will receive the "special consideration" Congress intended unless future guaranteed loan amounts are spelled out in all future SBA budgets.

Other sectional summaries of H.R. 2132 call for specifying dollar amounts for activities and programs in procurement management, research, minority small business, program evaluation, job training and trade fairs under salaries and expenses section of the proposed fiscal year 1984 and fiscal year 1985 SBA appropriations.

Once again, we call for specific dollar amounts to be allocated to the Office of Veterans Affairs of the SBA to carry out the current "special consideration" provisions of Public Law 93-237.

Public Law 93-237 was enacted in 1974 but received no implementing appropriations until 1983 when the 97th Congress allocated $3 million for this purpose. The VVF recommends that $15 million dollars be earmarked for veterans small business programs in fiscal year 1984 and fiscal year 1985. This money will assist the SBA veteran program needs, implement Public Law 93-237 provisions and provide new and additional outreach and technical services for this group.

We wish to discuss our other concerns in reference to SBA's newly created Office of Veterans Affairs with you or your staff in greater detail. We believe this office to be understaffed to meet its current commitments and mandates. Further, there is a very perceivable lack of leadership within this office. The Office of Veterans Affairs has been created administratively and VVF believes will need codifying legislation before it can be considered a permanent office as claimed by SBA. At any rate, a substantive portion of any monies allocated to veterans business programs "line item" should be utilized for contractual arrangements or grants with community based veterans groups and private sector programs with the demonstrated expertise to assist Vietnam veteran owned businesses.

Section 5 of H.R. 2132 authorizes a new program under which SBA may make grants to small businesses of up to $2,500 per employee or potential employee who is given training. We are gratified that you are considering a jobs training program that clearly states that veterans of the Vietnam era and disabled veterans will receive a top priority in qualifying for such proposed training. It is this type of concrete effort that we propose to set in print whenever new programs are conceived.

The job training program proposed under the bill is well thought out. Training timetables, upgrading technical and professional skills are necessary steps to the formulation of a qualified work force in future years approaching the 21st century with its new and unheard of technologies. It is appropriate that SBA be mandated to begin participating in such a jobs program since may of the newest innovations and jobs emanate from small businesses.

Amending the Small Business Act in this area would be of great assistance to the Vietnam veteran constituency who are experiencing the highest unemployment rates in their history.

Taking a look at the statistics that shape the nation, we find that when compared with other jobless Americans, Vietnam veterans suffer higher unemployment rates. A March 28, 1983 graph appearing in USA Today cited figures documenting this appalling fact. The unemployment rates for Vietnam veterans aged 25 to 29 increased dramatically between January 1982 to January 1983 from 13.9 to 21.8 percent. Non veterans in the same age groups (25 to 29) went up from 11 to 13.7 percent during the same period. In the 30 to 34 age group, Vietnam veterans in January 1983 were unemployed at a rate of 12.5 percent while non veterans in the same age group were unemployed at a rate of 9.3 percent.

These statistics are justification enough to support the modest initial effort of $24 million to provide priority job for Vietnam veterans as envisioned under the bill. The VVF fully supports your proposed job training efforts. Further, we will support any meaningful job training bill put forth by the Congress that specifically includes disabled and Vietnam veterans. We would recommend that grants be made to nonprofit groups as well as small business concerns in any proposed legislation.

The Foundation also wishes to point out its endorsement for provisions of H.R. 2132 that encourages expansion of the small business export development program. The International Trade Office of the SBA is under staffed and in need of the seventeen additional staff proposed in the bill. Hopefully some of these employees hired will be Vietnam veterans. Exporting opportunities for Vietnam veteran-owned businesses is a keen interest of the VVF. In fact, VVF has proposed to SBA that export seminars specifically designed for these veterans be held during this fiscal year.

Mr. Chairman, that concludes our supportive analysis of H.R. 2132. If our suggested amendments are accepted, it will become major landmark legislation for the nation's Vietnam veterans.

Our organization also supports the increased levels of funding for MESBIC's, SBIC's and the EOL authorizations called for in H.R. 860. Once again, we ask that Vietnam veterans be considered in the design and or expansion of such programs and included where appropriate.

H.R. 860 contains what VVF considers a necessary proposed statute: that is mandated spending. Section 2 of H.R. 860 requires SBA to approve assistance in the maximum amounts permitted unless there is a lack of qualified applicants. Requiring maximum spending of loan and guarantee assistance on the part of SBA is needed to prevent the agency from subverting Congress will when loan levels are set by simply curtailing demand and never really allocating all the moneys intended in a fiscal year.

Section 6 of H.R. 860 will also help in this regard. This section mandates SBA to keep a running record of the names, addresses, and amounts requested by loan applicants, or those who inquire about loan availability. This action will place SBA in the position of proving there is no interest in loans based on a lesser number of loan applicants or spending the maximum loan and guarantee assistance amounts because a larger number applied and were approved. We believe both sections are very important to citizens who qualify for SBA assistance and to keep the agency honest in reference to actual versus perceived demand.

Section 7 of H.R. 860 is also pertinent to our organization. Our experiences with SBA as the agency reprograming funds and watching the reorganization that recently took place in SBA is enough to warrant our strong support for this section. Vietnam veterans were shocked at the attempt by OMB–SBA to thwart Congress will in relation to direct loan funds previously appropriated.

Thus, Mr. Chairman, the VVF appreciates the opportunity to comment on both bills you are considering. H.R. 2132 and H.R. 860 specifically addresses some of our concerns for Vietnam veterans.

As we have earlier indicated, the VVF welcomes the chance to work with you, your Committee and staff in an effort to play "catch up" on behalf of our youngest veterans who are the prime age to consider and operating their own business as part of the American dream.

Mr. Chairman, that concludes our remarks. We stand prepared to answer any questions you or other members of the subcommittee may have. Once again, thank you for the opportunity to present our views of these subjects of vital interest to Vietnam veterans.

Mr. MITCHELL. Our next witness is Rear Adm. David M. Cooney, retired, president of Goodwill Industries. I am delighted that you could be here with us. I suppose that some of my folk in Maryland have told you about my interest in Goodwill Industries.

TESTIMONY OF REAR ADM. DAVID M. COONEY, U.S. NAVY (RET.), AND PRESIDENT, GOODWILL INDUSTRIES OF AMERICA, INC., BETHESDA, MD.

Admiral COONEY. Yes, sir. There is no question about the fact that you have a very sound footing in the things that we do, and the reasons that we do them. I appreciate having the opportunity to be with you this morning. This is my first time with this committee. I think that it is probably Goodwill's first time with this committee.

Mr. MITCHELL. I think it is.

Admiral COONEY. Therefore it is a meaningful experience not only for me, but for the organization that I represent.

Mr. MITCHELL. We have a complete copy of your testimony that will be submitted for the record, and if you just want to break out your major points and address those, that will be fine.

Admiral COONEY. Yes, sir, I would like to do that. Even though I know that you are well aware of what Goodwill does, I think that there might be some questions as to why Goodwill Industries is interested in the Small Business Administration, and in the various acts which pertain to that which I'd like to answer for the record.

I think that we should make it very clear that Goodwill is a membership corporation, the members of which actually operate community based small nonprofit businesses, the purpose of which is to provide training and employment to handicapped people, and Americans with special needs at the local level.

We are a fairly large group. We have 169 such corporations operating in the United States, a total of 177 in North America, and we have an international membership, as you probably know.

Last year, in 1982, we provided training and employment to some 70,000 disabled Americans. We have 30,000 disabled Americans in our employ at the present time. In 1982, we managed to place for employment outside of Goodwill some 7,500 handicapped individuals.

My particular interest with this committee this morning is the handicapped assistance loan program, which is covered by section 7(b)(10) of the Small Business Act, as you know, and to support the efforts of this committee to raise the funds available for SBA loans under the provisions of the handicapped assistance loan program, to the $43 million which your legislation proposes.

I think that some very general background about the employment rates of the handicapped might be interesting here. Actually, the handicapped probably constitute the largest economic, if not clearly indentifiable minority, in the United States. We know that more than 10 percent of the population is handicapped. There are probably more than 20 million handicapped Americans.

We know that the population of the United States is going to increase between now and the year 2000 by about 21 percent, but the number of handicapped people will increase by 30 percent. So not only now is there a present need to address the problems, the employment, and training for the handicapped, but that need will continue on into the future.

Of course, if we are going to resolve those future problems, we must build a basis now of community based organizations who can address the handicapped at this time. To be very candid with the committee, if it were not for SBA loans, significant numbers of facilities that operate as nonprofit organizations at the community level would have gone bankrupt, or for other reasons would not have been able to continue their work.

Since 1978, 49 Goodwill Industries facilities in the United States have availed themselves of SBA loans. Many of them would have gone bankrupt, if that loan provision had not been available. In that 49 that we are discussing, we can identify a minimum of 4,000 jobs.

Since we are talking about jobs for a group of people, of which 50 percent are unemployed at any given time, these 4,000 jobs become extremely important. And, gentlemen, these are jobs that we are talking about. Because our purpose is to bring people in, put them in the jobs, train them to do something and get them out, there is a very significant geometric multiplication factor over a period of years. So we are literally talking about many more people than the jobs that I can identify.

Your staff asked me to provide some examples, some specific examples of what happens as a result of an SBA loan. I have done that in my statement, so I will not carry on to any large extent, except simply to say than when Goodwill, or a facility run by the National Association of Rehabilitation Facilities, the Association for Retarded Citizens, or any other such group, finds itself in a situation where it is operating effectively, but like any other business is capital short, or needs to expand, where it has reached the point where it has used all of the space that it has available in order to meet the ever growing needs of the community—and I assure you that in recent years those needs have continued to grow for the handicapped—it must find capital.

Such a facility can go out into the community, and seek to raise it through capital development, but we all know how difficult that is. We all know that the handicapped do not have a very high priority in some communities. The net result is that under the present legislation, the facility if it can demonstrate that it is a competent and able business, can borrow up to $350,000 repayable over 15 years from the Small Business Administration.

Sixty-five percent of the money which has been borrowed by these Goodwills has been used for fluid capital with the remainder being used to increase the size of buildings or to acquire capital equipment, which provides more job stations or more training stations.

In many cases, we have seen that not only people employed in those Goodwills having their job protected by the Goodwill staying in business, but the number of people employed grows significantly, in some cases as much as 200 or 300 percent as a result of the investment of this capital.

One of the things that is interesting is that there is a synergistic effect in the community. When the community leadership, particularly the for-profit segment, says, "OK, these guys have done a pretty good job, they have gone and they have gotten a reasonable loan through the SBA. They have earned their own money, as Goodwills tend to do." I can describe to you what our sources of income are, if you are interested. They say "All right, maybe there is an outfit that maybe we can make a loan to ourselves, or which we can participate in some fashion, or even give a grant."

So the loan exceeds its apparent value in that particular respect in the community. All in all, this is a significántly important thing to the continued capitalization of the small nonprofit corporations operating at the community level serving the needs of the handicapped, and in many cases, being the only facilities who serve the needs of the handicapped in that community, or in that area.

[Admiral Cooney's prepared statement follows:]

PREPARED STATEMENT OF REAR ADM. DAVID M. COONEY, U.S. NAVY (RET.), AND PRESIDENT, GOODWILL INDUSTRIES OF AMERICA, INC., BETHESDA, MD.

Thank you for the opportunity to present testimony today in support of pending legislation to increase the authorization levels for various Small Business Administration [SBA] loan programs. Goodwill Industries of America, Inc. [GIA] is a national nonprofit membership organization serving disabled individuals through 177 rehabilitation facilities in North America and 44 affiliates in 31 countries around the world. I meet with you as the President and Chief Executive Officer of an organization that provides a wide variety of services to handicapped individuals including vocational evaluation, job training, transitional, and full-time employment, independent living skills, career counseling, and placement services.

We are the largest network of privately operated, vocational rehabilitation workshops in the world. More than 65 percent of our revenues last year were derived from retail sales and industrial contracts for goods or services. We use the revenue from these programs, salvage sales and fees earned by providing services to insurance firms and government agencies, and limited public cash contributions, to provide rehabilitation services and employment to disabled persons. In 1982, Goodwill Industries placed 7,300 disabled individuals into competitive employment through our placement programs and employed over 30,000 disabled individuals in our production facilities, retail outlets, and industrial contract programs.

In total, our business activities, conducted at the community level, enabled Goodwill nationally to invest approximately $225 million in rehabilitation efforts. This figure represents income and services provided to or for disabled individuals, and equals approximately twenty-five percent of the total Federal basic state grant expenditures for rehabilitation activities in 1982.

The Handicapped Assistance Loan [HAL] program authorized by section 7(a)(10) of the Small Business Act has been vital to Goodwill and other organizations employing or owned by disabled individuals. As you know, these loans are available under two classifications.

HAL-1 loans are available to nonprofit organizations employing handicapped individuals for not less than 75 percent of the man-hours required for the production of commodities or in the provision of services. HAL-2 loans, on the other hand, are only available to small businesses wholly owned by handicapped individuals. The maximum amount of a HAL loan is $350,000 for up to 15 years. In addition to the direct loan program, the SBA may guarantee loans made by a private lending institution to organizations employing or owned by disabled persons.

Several case histories of our members' experiences with the HAL program may illustrate the need for continuing the program at increased authorization levels.

The Zanesville, Ohio Goodwill was struggling to stay alive in 1979. They were $150,000 in debt and unable to raise enough money from conventional community sources. They sold two production buildings and a dormitory and consolidated their operations into one building. Even after these efforts, they were on the edge of bankruptcy, with no capital to counter reduced income resulting from the general economic situation in their area. The Board of Directors took the desperate step of voting to close entirely the Goodwill operation, if the Goodwill did not receive additional funding. With the assistance of GIA, Zanesville turned to the SBA after trying other sources and received a $250,000 Handicapped Assistance Loan in July 1979. With this money they spent $100,000 retiring their debt and consolidating their bills. They spent the remaining $150,000 renovating their building. With the assistance of the HAL money, Zanesville had capital to turn around their retail operation to an earning level sufficient to meet the expenses of a proper rehabilitation facility, while also making timely monthly payments of approximately $1,000 on the loan. At least 50 disabled and nondisabled employees would have lost their jobs without the infusion of the HAL money. Today, Zanesville is on its feet, operating a rehabilitation facility where handicapped individuals are provided employment opportunities that enable them to learn skills so that they can enter the competitive labor market. Zanesville currently employs 55 individuals, 45 of whom are handicapped, and in 1982 had a total payroll of approximately $225,000. The Goodwill continues to thrive and recently has obtained a contract with the State of Ohio for the maintenance of roadside rest areas, which will provide useful work for the State and for the 12 to 15 handicapped individuals who will be employed on the jobs.

Another success story brought about by the HAL program took place a few years ago in Nebraska. The Central Nebraska Goodwill Industries, located in Grand Island, was among those firms whose buildings were demolished by tornadoes that hit the area June 3, 1980. Central Nebraska Goodwill, which at that time employed 65 people, lost everything they owned in that disaster, including their building, all the merchandise in the building, equipment and five vehicles. Though the community was generous in donating $155,000 for rebuilding, Goodwill estimated a need for approximately $600,000. Unable to afford a commercial loan at high interest rates, they feared many of their services would have to be discontinued. Fortunately, a $266,000 HAL from SBA, a $30,000 SBA disaster loan, $210,000 in insurance money and the donations from their community together enabled the rebuilding of Central Nebraska Goodwill on the same site. In rebuilding, Goodwill added additional square footage with extra room for contract services and volunteers. The new building is also completely accessible to disabled individuals. Construction for the new facility began less than 1 year after the disaster and was completed about six months later. Today, Central Nebraska Goodwill employs 78 individuals with a payroll of approximately $372,000. Of the 78 employees, 21 are disabled individuals and 33 are clients in training. With their updated facility and availability of services, referrals to Central Nebraska Goodwill have tripled in 1 year. In this instance, a $226,000 loan helped mean survival for this worthwhile organization and business.

A final example comes from the Goodwill Industries in Tucson, Arizona. In 1975, this Goodwill employed 70 people in their unique location—a refurbished Safeway supermarket building. Unfortunately, they had no space to expand their contract services and found themselves serving handicapped people in an environment with physical barriers for their handicapped clients and employees. Additionally, and more critically, debts piled up and the Tucson Goodwill found itself behind in payroll and in payroll taxes. Coupled with this situation was a request from Arizona's State Vocational Rehabilitation Division that Goodwill greatly expand its services to the disabled. Tucson Goodwill, faced with probable bankruptcy, applied for and received two HA loans, one in 1976 and one in 1977. The first loan, for $180,000, was used to construct a new, barrier-free building with workspace for contract activities. The second loan, in the amount of $43,000, was used for debt consolidation and working capital. Overall employment at Tucson Goodwill has risen from 70 people in 1975 to 185 people today. Of these 185 people, 63 are disabled employees and 80 are clients in training. Sixty-seven of the employees, all of whom meet Federal poverty guidelines and 65 percent of whom have disabilities in addition, are engaged in contract work, assembling technical manuals for IBM, and working in Goodwill's mailing and packaging operation. According to the Tucson Goodwill's executive director, "The handicapped Assistance Loan made the difference between our staying open and closing down."

Mr. Chairman, these are a few examples of the success of the HAL program around the country. Since 1978, at least 49 local Goodwill agencies have received approved authorization for HA loans. Of these 49, GIA assisted 29 local Goodwills in obtaining approved authorization for funding, totalling more than $7 million. We know that, for Goodwills, over 4,000 jobs for disabled and nondisabled individuals were affected by these loans.

Without the Handicapped Assistance Loans, several local Goodwills would have faced bankruptcy because of circumstances beyond their immediate control, such as the economic difficulties facing the country the past several years. In other cases, the loans enable agencies to expand their production of goods and services to hire additional handicapped employees and to train others for placement in the business community. We also know that our experiences with the HAL program are not unique and that other organizations, such as the National Association of Rehabilitation Facilities, have experienced similar success with the program.

In this way, the HAL program is an investment in the potential of disabled Americans who otherwise would not have found employment. This investment is returned many times over through the increase in earnings of disabled persons and the reduction in the cost to the government of supplemental payments and benefits. Graduates from Goodwill's rehabilitation programs and disabled individuals employed by Goodwill Industries made more than $126 million in wages and paid approximately $18.9 million in taxes in 1982.

As you are all well aware, small businesses face many difficulties today. In many ways, Goodwills are small businesses and face all the problems that both small businesses and nonprofit organizations are experiencing. Yet, at the same time, Goodwills operate to fulfill the important social purpose of enabling disabled individuals to lead full and productive lives. Without the assistance of the HAL money, many Goodwills would not survive and the resulting loss of jobs for disabled people would result in costs to the taxpayers significantly higher than the federal expenditures for the loans. Additionally, it should be noted that unemployment among disabled Americans is as high as 50 percent. The survival of Goodwills, capable of employing these individuals, is extremely important today.

With this as background, Goodwill feels qualified to attest to the fact that the HAL program serves an important and necessary purpose and that there is a need to increase the authorization levels. We believe it is time to increase the authorization level for the HAL program above the current fiscal year 1984 level of $15 million. The fiscal year 1982 and fiscal year 1983 appropriation for these loans was limited to $15 million, a substantial drop from the fiscal year 1981 appropriation level of $25 million. We support moving beyond the restrictive authorization ceilings of the past few fiscal years to the $43 million authorization contained in H.R. 2132.

In a related matter, we urge you to take action this year to permanently authorize organizations eligible for HA loans to bid on federal contracts set aside for small businesses under section 15(c) of the Small Business Act. As you know, this set-aside is authorized through fiscal year 1983 and needs to be reauthorized this year. To date, the SBA reports that there has been no measurable economic impact to for-profit small businesses from this program. Goodwill Industries has found that this program has enhanced work opportunities for handicapped individuals in rehabilitation facilities and believes that it deserves continued support from Congress.

In conclusion, we thank you for your strong support for the needs of disabled persons through your continued attention to the Handicapped Assistance Loan program. The HAL program has been a vital aid to rehabilitation facilities and has enabled disabled individuals to become taxpayers rather than tax users. As such, it should be continued and strengthened. I would be pleased to answer any questions you have at this time.

Mr. MITCHELL. Thank you, very much. I really have no questions. Because I have firsthand knowledge of what you do.

Admiral COONEY. Yes, sir.

Mr. MITCHELL. And there is a very nice chest in my house, which I purchased from Goodwill Industries, which was refinished. Everyone thinks that it is a priceless antique, and I do not attempt to make them change their thinking about that.

I am just curious about one thing.

Admiral COONEY. Yes, sir.

Mr. MITCHELL. You are projecting that the handicapped population will increase by 30 percent?

Admiral COONEY. Yes, sir.

Mr. MITCHELL. Why is that?

Admiral COONEY. People who had previously died as a result of certain illnesses or traumatic injury are now continuing to live.

Mr. MITCHELL. I see.

Admiral COONEY. That is one of the factors. More people are being born, and there are more reasons why people get handicapped, unfortunately. Automobile accidents, and that sort of thing.

I would like, if I may, to urge you also to permanently authorize the organizations who are eligible for handicapped assistance loans to bid on Federal contracts set aside under section 15(c) of the Small Business Act. A set-aside was authorized through fiscal year 1983, and it requires reauthorization this year.

There was a requirement for the SBA to report on the impact of that. They have so reported, and you should have a copy of that report. But in effect, what the report says is that there is no significant impact on other elements in the small business community as a result of the set-aside provision. We would ask that that reauthorization take place.

Mr. MITCHELL. I'd not anticipate any problems in this committee on that reauthorization.

Mr. Smith.

Mr. SMITH of Iowa. I want to thank you for your testimony. I am acquainted with Goodwill, especially the one in Des Moines, Iowa, which also was a recipient of one of those loans.

Admiral COONEY. Yes, sir, that is correct. It made a significant difference. They represent a unique trend, the Goodwill in Des Moines. They represent a combination of what used to be an Easter Seal facility and Goodwill, and we find that that is an increasing trend across the country, as we try to consolidate.

Mr. SMITH of Iowa. I have visited the facility, and it is a very substantial facility. They do a lot of work, and get a lot of the equipment, and old clothes, and things in there, and fix them up.

Admiral COONEY. In case our friends from the Small Business Adminstration feel, sir, that we are here only with our hands out, I would like to point out that Goodwill collectively in 1982 spent money, which it had earned itself, at the rate of $225 million on the retraining and rehabilitation of Americans. That is more than 25 percent of the number of Federal dollars spent through the Rehabilitation Act.

We are not a hands-out organization. We believe in the capital system. We are small businesses. We support very strongly what you do, and we appreciate your efforts on our behalf very, very much. Thank you.

Mr. SMITH of Iowa. I think that one other thing that is not measured is the importance and the value to some people being able to go to Goodwill, and acquire what they need that they otherwise could not have had.

Admiral COONEY. Yes, sir. We do, I think, contribute significantly to the standard of living of some aspects of the community. We do so in a way in which the purchaser has a sense of pride. He enjoys buying his own shirt, his own automobile, whatever it is every bit as much as if he had gone down the street someplace else.

Of course, that is how Goodwill got started, you know. We started giving it away 82 years ago. And the young Methodist minister who began the business discovered that people did not like charity. So he said, "Not charity, but a chance." And he gave them all jobs for a few cents to go out and sweep the church, and that sort of thing. Then they brought the money in, and purchased the goods. And from that, we have developed the contribution to the community which you note, and which is such an important part of our corporate ethic. I thank you for commenting.

Mr. **Smith** of Iowa. I have noticed, also, these pickup stations where you have taken the truck out.

Admiral **Cooney**. Yes, sir.

Mr. **Smith** of Iowa. I think that there is an opportunity to pick up a lot more goods.

Admiral **Cooney**. We discovered that with the rise in the cost of fuel and certain other things, it was costing us $7.50 for each call to a house. In many cases, we did not get $7.50 worth of merchandise.

Mr. **Smith** of Iowa. But you can station one of those once a week at a place where a lot of people are coming anyway, like a shopping center, and collect an awful lot.

Admiral **Cooney**. Actually, it has increased the numbers of donations that we have had. I think without taking too much time that I should note that in the last year, we have had a significant decline in the number of donations to Goodwills, which was a reflection of the employment pattern in the United States.

People were concerned that they were going to lose their jobs, or they had lost their jobs. At the other end of the spectrum, we had more customers coming into the stores, because they knew that they could get a value there.

Because that was true, we had a significant reduction in cash flow. And it is going to take us some time to recover from that, just as it would from any for-profits small business, as you know.

Mr. **Smith** of Iowa. You know, I would just say something. Maybe I am clear off. But I bet if you would just make a statement to that effect, and get radio stations to carry it free of charge, you would get a lot more stuff.

Admiral **Cooney**. We have.

Mr. **Smith** of Iowa. There are a lot of people who have stuff in their attics, they have stuff in their closets that they do not need. If they knew someone really needed it, they would be glad to do it.

Admiral **Cooney**. We have, and we have had astonishing results in some communities. In fact, in Los Angeles for example, one clothing merchant became aware of the fact that we needed better quality clothes and offered a trade-in situation, where if you brought in your old suit and traded it in to him, he would give you $10 off on his merchandise. Then he turned around and donated all of that to us.

So we work closely with the business community. You are right about that.

Mr. **Mitchell**. Thank you, very much, and just keep that good work up. That is all that I can ask you.

Admiral **Cooney**. Thank you.

Mr. Mitchell. At this point in the record, without objection, we will insert a prepared statement by Mr. James A. Cox, Jr., executive director of the National Association of Rehabilitation Facilities.

Prepared Statement of James A. Cox, Jr., Executive Director, National Association of Rehabilitation Facilities

Mr. Chairman, my name is James A. Cox, Jr. I am the Executive Director of the National Association of Rehabilitation Facilities. NARF is the primary national membership organization of community-based vocational and medical rehabilitation facilities. Over 500 of these organizations are providing a wide range of services to both physically and mentally handicapped persons. These services include evaluation and testing, physical restoration, skills training, work adjustment training, sheltered employment and job placement.

There are two issues concerning authorizations under the Small Business Act which are of vital concern to NARF. One is the level of funding for Handicapped Assistance Loans and the other is reauthorization of eligibility of sheltered workshops for small business set-asides.

In 1979, Congress amended the Small Business Act to allow sheltered workshops and other rehabilitation facilities employing handicapped persons to bid on contracts with the federal government set-aside for small businesses. Authorization for this program expires at the end of September 1983. The program has proven to be a valuable source of work for thousands of handicapped individuals and has not had any adverse impact on the small business community.

In 1977, legislation was introduced which would allow sheltered workshops to bid on contracts set aside by the federal government for small businesses. NARF was primary advocate for the development of the legislation. The Small Business

Administration does not consider workshops to be small businesses since they are not organized for profit. The Handicapped Assistance Loan program passed by Congress in 1972 had been the only program available to a non-profit entity from SBA. To alleviate the fears of SBA and the small business community, the program passed in 1978 was limited to one year to study the feasibility of sheltered workshops' eligibility for the set-aside. Monetary and other restrictions were placed on the program. The set-aside allows workshops to bid on certain contracts that only small businesses have been eligible for in the past. The total value of these set-asides has exceeded $4 billion.

Through the continued efforts of NARF and others, the amendment was reintroduced by Senator John Culver in 1979. It was incorporated into the Small Business Development Act of 1980, P.L. 96-302. Section 116 of the bill modified section 15(c) of the Small Business Act allowing organizations eligible to receive Handicapped Assistance Loans under section 7(h) of the Act to bid on the set-aside contracts. Three conditions were imposed: (1) the eligibility was limited to fiscal years 1981, 1982 and 1983; (2) a $100 million cap was placed on the amount of contracts that could be awarded to workshops in each of the three years; and (3) that in the event of a complaint of adverse impact on a small business, the Executive Director of the Committee for Purchase from the Blind and Other Severely Handicapped and the Administrator of SBA would resolve the dispute.

According to informal records by the National Industries for the Severely Handicapped, the aggregate amount of small business contracts successfully bid by workshops has been less than $6 million over the 2 1/2 year period. NARF is aware of only one situation involving a dispute between a workshop and a small business. That dispute was resolved in favor of the small business.

Section 116(c)(2) of P.L. 96-302 required that by January 1, 1982, SBA submit a report on the impact of workshop participation in the set-aside program on for-profit, small businesses to both the Senate and House Committees on Small Business. In a letter to you, SBA Associate Administrator for Procurement R. F. McDermott said:

- the $100 million limit appeared to be an adequate ceiling,
- a total dollar value of only $723,000 in contracts has been reported to SBA,
- there was a complete absence of complaints from small businesses, and,
- there had been no measurable economic injury to for-profit, small businesses.

Given the small volume of contracts awarded to workshops, the lack of complaints and the conclusions reached by the Small Business Administration, NARF urges this Committee to amend the Small Business Act by permanently authorizing organizations eligible for HAL loans to bid on federal contracts set aside for small businesses.

Sheltered workshops use work as a therapeutic and rehabilitative modality. The need to maintain stable work opportunities is critical to the rehabilitation of handicapped persons training and working in sheltered workshops. The set-aside program has contributed substantially to stabilizing workshop work supply.

Attached are copies of the letter from SBA and a list of small business set-aside contracts won competitively by sheltered workshops.

NARF supports the authorization levels suggested in H.R. 2132 for the Handicapped Assistance Loan program (Section 7(a)(10)). These direct loans are one of the very few sources of capital funds available to sheltered workshops and other non-profit rehabilitation facilities employing and training handicapped persons. These loans have been used to help equip and construct rehabilitation facilities. The increase to $43 million for direct loans would be a major boost to rehabilitation facilities. The HAL program has had the lowest default rate of all SBA loan programs. A recent study for the Senate Small Business Committee showed that the default rate of HAL loans was one-tenth of one percent of SBA loan defaults. NARF would hope that the Small Business

Administration would lift the administrative limit of $100,000 on HAL loans and allow borrowing up to the statutory limit of $350,000. In today's economy, the statutory amount is often needed.

NARF, its members and the handicapped persons employed and trained in rehabilitation facilities appreciate the efforts of the Small Business Committee. We are especially thankful for your overturning the deferral of direct SBA loans. Due to your efforts, over $11 million will be made available during the remainder of FY 1983 for Handicapped Assistance Loans. NARF will be glad to provide you and your staff with additional information on this and other issues affecting handicapped persons and rehabilitation facilities that may come before the Small Business Committee.

SMALL BUSINESS SET-ASIDE COMPETITIVELY WON

Project No.	Sheltered Workshop Name & Location	Dollar Amount	Status	Date
010146	Work, Inc. North Quincy, MA	7,834	09	7-2-81
010174	Work, Inc. North Quincy, MA	319,740	22	12-4-81
010190	Work, Inc. North Quincy, MA	65,000	09	11-2-82
020432	Chenango County Chapter NYSARC Norwich, NY	43,960	09	4-20-82
020451	Oswego Industries, Inc. Fulton, NY	515,600	22	9-17-82
Not asgnd.	Tennessee Valley Rehab Center Decatur, AL	17,000		
030448	Chesapeake Center, Inc. Easton, Md.	131,849	22	1-21-83
030468	Pace Training & Evaluation Center Star City, WV	46,000	09	3-18-82
030465	Anchor Mental Health Assoc. Washington, D.C.	10,000	22	4-17-81
040144	Coastal Opportunities Jacksonville, NC	7,000	09	3-15-82
030410	DC Association for Retarded Citizens Washington, D.C.	10,000	09	9-23-81
040170	Opportunity for Advancement for the Handicapped Jackson, MS	43,992	22	4-9-82
030151	Phila. Assn. for Retarded Citizens Philadelphia, Pa.		09	1-10-80
030351	Rappahannock Rehabilitation Fredericksburg, VA	308,665	14	5-30-83
030550	Chesapeake Center Inc. Easton, MD	135,600	22	8-19-82
030590	Melwood Horticultural Training Center Upper Marlboro, MD	20,000	19	1-13-83
030588	Lewis & Puller Vocational Center Inc. Gloucester, VA	11,000	22	10-15-82
030587	Southeastern Regional Workshops Inc. Ronceverte, WV	92,000	22	1-23-83
040193	Central GA VOC Development Ctr. Dublin, GA	9,728	22	4-30-82
040240	Huntsville Rehab. for Handicapped Huntsville, AL	154,480	14	11-9-82
030612	Chesapeake Center, Inc. Easton, MD	54,480	17	10-27-82
030627	Southeastern Regional Workshops, Inc. Ronceverte, WV	30,600	15	12-3-82
040241	Huntsville Rehab. for Phoenix Industries Huntsville, AL	42,000	11	10-26-82
040242	Huntsville Rehab. for Phoenix Industries Huntsville, AL	42,000	11	10-26-82

030628	Sheltered Occupational Center of Northern Virginia Arlington, VA	100,000	17	11-23-82
030630	Elwyn Industries Elwyn, PA	145,080	14	12-22-82
Not asgnd.	Workshop V Charlottesville, VA	108,000		
030638	Lewis B Puller Vocational Center Gloucester, VA	3,339	11	1-20-83
030524	Elwyn Industries Elwyn, PA	41,102	17	6-30-82
050218	Handi-Shop Industries Inc. Tomah, WI	31,700	22	8-28-81
080082	Billings Sheltered Workshop Billings, MT	74,003	22	10-23-81
050234	GI, Milwaukee Area, Inc. Milwaukee, WI	10,000	09	6-7-82
050228	Jewish Vocational Service Milwaukee, WI	16,500	13	2-18-81
050082	Opportunity Training Center St Cloud, MN	124,001	22	11-26-82
050270	ACKCO Services Owosso, MI	501,600	09	4-19-82
Not asgnd.	Westgate Center Inc. Cassopolis, MI	1,518		
Not asgnd.	Tasks Unlimited Inc. Minneapolis, MN	417,330		
Not asgnd.	Trico Opportunities Inc. Kingsford, MI	166,228		
050291	Stone Belt Council for Retarded Citizens, Inc. Bloomington, IN	39,306	11	1-13-83
050292	Tasks Unlimited, Inc. Minneapolis, MN	68,683	11	1-13-83
080103	Fargo Public Schools-- Evaluation & Training Center Fargo, ND	9,937	11	1-13-83
090105	V-Bar Enterprises Inc. Suisun, CA	76,004	22	10-23-81
080100	Community Training Center Grand Junction, CO	3,280	17	10-25-82
090213	Yuma WORC Center Inc. Yuma, AZ	218,643	11	1-18-83
060132	Arkansas Society for Crippled Children Pine Bluff, AR	220,000	11	10-26-82
060135	GI of Dallas Dallas, TX	89,610	13	1-19-83
060102	St. Francis County Sheltered Workshop Forrest City, AR	699,470	22	9-17-82
070151	Cottonwood, Inc. Lawrence, KS	85,160	09	3-19-82

100140	Bonney Work Activity Center, Inc. Corvallis, OR	63,543	9	4-6-82
100166	Salem Rehabilitation Facility Salem, OR	7,260	14	12-31-82
100175	Pre-Vocational Training Center Spokane, WA	37,701	22	1-7-83
100167	Northwest Center for Retarded Seattle, WA	22,899	22	12-10-82
100160	Sunrise Enterprises of Roseburg, Inc. Roseburg, OR	36,875	Unable to request assignment-Waiting for documentation from PA	
100159	" " " " "	22,500		
100157	" " " " "	9,900		
100158	" " " " "	16,500		
100193	Yakima Specialties, Inc. Yakima, WA	9,298	13	8-18-82
100204	Custom Industries Bellevue, WA	23,114	17	9-22-82
100207	Portland Habilitation Center, Inc. Portland, OR	24,516	18	12-20-82
100181	Columbia Industries Kennewick, WA	Unknown	17	3-17-82
100208	Olympic Peninsula Enterprises Bremerton, WA	30,374	17	11-23-82
100213	Sunrise Enterprises of Roseburg, Inc. Roseburg, OR	12,216	11	11-5-82
100215	Sunrise Enterprises of Roseburg, Inc. Roseburg, OR	23,725	11	11-5-82
100217	Sunrise Enterprises of Roseburg, Inc. Roseburg, OR	105,207	11	11-5-82
100156	Development Workshop, Inc Idaho Falls, ID	22,000	14	12-30-82
100172	Panhandle Child Develmt. Assn. Coeur d' Alene, ID	7,560	22	9-3-82

Total $5.8M

DEC. 1 8 1981

Honorable Parren J. Mitchell
Chairman
Committee on Small Business
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with Public Law 96-302, Section 116, we are pleased to present for your consideration the Fiscal Year 1981 Report on participation of not-for-profit organizations operating under the auspices of the Committee for Purchase from the Blind and Other Severely Handicapped. We have examined the economic impact of contracts awarded to these not-for-profit organizations on for-profit small businesses and concluded:

- The aggregate level of $100,000,000 authorized by Section 116 provided what reasonably seems to be a more than adequate ceiling for the blind and severely handicapped participation in small business set-aside programs.
- Four Federal agencies responded to the Small Business Administration's request of April 9, 1981 (enclosed), and reported a total dollar value of $723,956.
- This relatively small dollar value and the complete absence of any complaints from small businesses firmly establish, in our opinion, that no measurable economic injury was sustained by for-profit small businesses as a result of Section 116.

We shall be pleased to provide any additional information that you may need.

Sincerely,

R. P. McDermott

R. P. McDermott
Associate Administrator
for Procurement and Technology Assistance

Enclosure
cc: C. W. Fletcher
Executive Director
Committee for Purchase
from the Blind and Other
Severely Handicapped
PTA/PACS: Rodgers/rjs 12/15/81
cc: PTA 600 PACS 632 Exec. Sec. 1013 CLA 1024

RRodgers __________
PBrowne __________
CLA __________

Mr. SMITH of Iowa [presiding]. The next witness is Mr. McNeish. You have a very good statement here, and you may summarize.

TESTIMONY OF PETER F. McNEISH, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES, WASHINGTON, D.C.

Mr. McNEISH. Thank you, Mr. Smith.

I appreciate the opportunity to testify on both H.R. 860 and H.R. 2132.

I should say at the outset that the National Association of SBIC's does fully support the position stated earlier on behalf of the MESBIC industry by Mr. Burns in his testimony on behalf of AAMESBIC. We knew they were going to testify in the interest of the MESBIC's, therefore, our statement is directed primarily to the SBIC industry.

The first half of my written statement covers information on the program which is generally familiar to the committee, so I will summarize those major points.

The second half of the statement provides our view of why the authorization level for the program should be increased, and I will cover those points in some detail.

Mr. Chairman, 1983 happens to be the silver anniversary of the SBIC program. We are very proud of our industry's record in providing venture capital, and significant management counsel to emerging growth companies throughout America.

SBIC's have provided over $4.5 billion in venture capital to more than 60,000 small business concerns.

Today, we have 360 SBIC's with assets of over $2 billion that are actively financing young growth companies throughout the country.

Independent studies of the program have reached some very significant conclusions, which I will just highlight.

First, that SBIC's, in fact, do finance growth companies. These are small businesses which grew 10 times faster than other small firms, in terms of sales, in terms of profits, and in terms of employment; and they have paid taxes at a rate 5 times greater than that of all other small concerns.

SBIC investments also generate tax revenues to the U.S. Treasury. Our studies concluded that every dollar spent by the SBA to run the program produces $110 of new tax revenues to the Federal Treasury.

SBIC investments also create jobs. The types of growth firms in which SBIC's invest are exactly the kind of firms which generate, on the basis of David Birch's studies, over 60 percent of the new jobs in our economy.

And, in fact, jobs are created through the SBIC program at a very low cost to the Government. Our studies indicate that a new permanent job is created for each one time, nonrecurring SBIC investment of roughly $6,500. Taking that a step further, the gross out-of-pocket cost to the Government to create a new job through the SBIC program is only $312.

If you take it even a step further and take into account the increased tax revenues generated by the program itself, the cost to create a new job through the SBIC industry is an absolute zero to the Federal Government.

The bottom line of all this is that the program, in our judgment, is extremely cost-effective. It is a way to channel venture capital to promising young companies. It attracts capital and professional skills from the private sector; it helps small business; it creates jobs; it develops new technologies; and in addition to all that, it generates additional tax revenues to the U.S. Treasury.

Mr. SMITH of Iowa. What interest rate are you currently paying SBA?

Mr. MCNEISH. It is about 10.4 percent.

As you know, that changes on a monthly basis, and reflects the current rates of the Federal Financing Bank.

Specifically, with regard to SBIC leverage in terms of H.R. 860 and H.R. 2132, as you know SBIC's are authorized to borrow on a long-term basis, what is commonly referred to as leverage; and we do pay the full cost of money to the Treasury, plus a premium for those borrowings. It has been as high for the past year or so as 16 percent, now coming down with moderation of rates to the range of 10 percent.

As we have testified before your committee on a number of occasions, it is clear to us that our industry needs a substantial increase in the level of leverage from the SBA in order for SBIC's to continue the process of creating jobs and investing in small growth industries.

Under present law, SBA can guarantee only $160 million in leverage in fiscal year 1983 and 1984, and that, in our judgment, is far too little to quench the thirst of small firms who critically needed growth capital as we turn the corner toward economic expansion.

The need for an increased authorization level is both short term and immediate, as well as long term.

To meet the industry's short-term needs, we strongly urge the committee to amend the bills it is now considering, and increase the current 1983 authorization level from $160 to $250 million.

This is not a recommendation to bust the budget. This proposed increase in the authorization level would have no impact whatsoever on SBA's current congressionally approved budget authority for this current fiscal year. That is because there is a significant amount of unused guarantee authority in other agency programs within the business loan and investment fund.

For the longer term, we fully support the provisions of H.R. 2132, which would increase the program level to $250 million for fiscal year 1984, and $330 million for fiscal year 1985.

And I would like to take a few moments to explain why we think those increased levels are justified and necessary.

I think you have to look at several developments that have occurred over the past 6 years, which all are putting pressure on the need for additional leverage.

First, the factor of industry growth. During the past 6 years the SBIC industry itself has been on a fast growth track. The industry has been expanding at a record pace by almost every measure. During the period there has been a 33-percent growth in the number of SBIC's. More new active SBIC's have been licensed in the past 6 years than in the previous 13 years. In and of itself this growth implies an increased level of demand by these new companies for leverage.

Second, there is the fact that these are larger companies that are coming into the industry. The average size of the new SBIC's that were licensed during this 6-year period has been over $1.2 million. This suggests a continuing entry into the program of SBIC's which have a larger capital base, an ability to attract strong management teams, and the capacity to invest substantially more funds in emerging growth companies. It also implies an increased demand for new leverage from the SBA.

Related to this is a third point: SBA itself has proposed, and will shortly put into place, new regulations which increase the minimum capitalization required for an SBIC from $500,000 to $1 million. We support this change for a variety of reasons, but we point out that the increased capital base, in and of itself will result in larger SBIC's requesting larger amounts of SBA leverage.

The fourth factor is also related to the expanded private capital base of the industry generally. During this 6-year period, the industry's private capital has doubled to over $800 million. New licensees themselves brought in an additional $270 million of fresh private capital, while mature SBIC's have added more than $130 million to their capital base from either newly invested external capital sources, or the capitalization of retained earnings. This is a mature growing industry and all these additions to private capital place an even greater demand on the need for increased leverage.

A fifth factor is the record rates of investment that have been made in small business by the SBIC industry. Of course, the program's most important measure of growth is the impact it has on the small business community. The record of growth in investments has been striking. The amount of funds invested annually has almost tripled, from $129 million in 1976 to a record high of $333 million in calendar 1981. That level of investments tapered off only slightly in calendar 1982 to $323 million. During the first 2 months of 1983 this record-high rate of investment activity has been maintained, with $28 million and $29 million invested respectively in January and February. If this pace of investments holds throughout the year, 1983 will set another record in the level of SBIC investments in small firms.

I would point out, however, that without additional leverage, this activity level simply cannot be sustained. Placing arbitrary limits on access to new leverage forces SBIC's to carefully husband their current funds for necessary second-round investments in existing portfolio concerns, and significantly reduces the industry's capacity to make new investments.

The sixth item relates to the record rates of demand from small business concerns for funds. The soundings we take in the industry clearly indicate that there is a continuing high level of good quality deal flow being presented to the industry. We believe this reflects the unbridled spirit of the American entrepreneur who continues to see new markets of opportunity, even in times of economic distress.

We have every reason to believe that that optimistic spirit will grow stronger as the economy rebounds, generating an even greater level of requests for financing from SBIC's.

A practical matter that has some impact on leverage is an item that you mentioned, Mr. Smith. With the moderation of interest rates generally, the borrowing rates for SBIC's have once again become relatively attractive. Rates are now in the range of 10 or 10.5 percent, as opposed to the 15 or 16 percent of not so many months ago.

Many SBIC's were justifiably reluctant to get locked into long-term borrowings at the old high rate level. At the same time, because of the possible need to refinance large amounts of maturing debentures, there has been a great deal of uncertainty regarding how much new leverage would be available from SBA. The result of those things is that many SBIC's deferred their borrowing requests, and we know that SBA now faces a significant pent-up demand for leverage which is just beginning to emerge.

Finally, the character of SBIC investments has changed over the past several years, and that has an impact on the liquidity of those investments and the liquidity position of SBIC's. The average size of an SBIC financing has increased by over 50 percent, to the range of $150,000. In addition, the average equity investment has more than doubled to over $275,000. At the same time, there has been a major increase in the proportion of straight stock and equity type investments as opposed to straight loans, going from 50 percent of the total portfolio to 72 percent of all financings in 1982. SBA data also shows that SBIC's are now allocating a larger share of their dollars to start-up financings.

One impact of this whole new portfolio mix is that SBIC's will have larger and larger amounts of money tied up in more start-up and equity-type deals, with the return of the SBIC's capital occurring at a slower rate. SBIC's will be less liquid. This mix will put additional pressure on their liquidity needs and cause an increased demand for access to leverage.

These developments have created a tremendous pressure for increased access to leverage from SBA. Viewed from a broad perspective of the industry, private investors, relying on the implicit congressional promise in the original 1958 act, have now put over $800 million of their own private capital at risk into the SBIC industry with the expectation that they will be about to borrow some $2.4 billion from the Government. That expectation is currently unfulfilled to the extent of over $1.6 billion, and that promise may never be met unless the authorization level is substantially increased.

These developments I have cited also lead to a rather disheartening arithmetic conclusion. Unless the amount of leverage is increased, the industry will soon exhaust its own available liquid resources if it continues to invest at the rates that it has. SBIC's will have insufficient funds to finance new small business requests for growth capital, and the program will grind slowly to a halt.

This result, of course, would be a devastating blow to emerging growth companies. It would impact most adversely on entrepreneurs seeking SBIC dollars to start new firms and on owners of small businesses in need of venture capital to expand their companies to bring new products and new services to the American economy. Perhaps even more important, it would severely injure the job creation process at the very time our economy needs the stimulus of new jobs.

In our view, the better answer is to increase the program's authorization level to a reasonable level which will serve the interests of small business and the Nation as well.

I would like to take just a moment to discuss the immediate situation that we face for the balance of fiscal year 1983.

The remaining 6 months of this fiscal year present a very serious leverage problem for the industry. At the outset of fiscal year 1983 we had an authorized program level of $160 million, but there was a major cloud hanging over those funds.

Some $155 million of maturing debentures would have to be refinanced by the SBA if the SBIC's holding those debentures did not have sufficient liquid resources to pay them off.

Under Federal budget accounting procedures, the rollover or refinancing of those debentures would count as if they were new loans. As a result, the present ceiling for 1983 could have been virtually exhausted simply by the rollovers with no new money available.

Another part of that same problem is that those maturing debentures occur unevenly during the year at different times. This makes it very difficult for the SBA to allocate funds throughout the year to the SBIC industry, and it makes it virtually impossible for the industry to plan on drawing down funds with any degree of certainty.

As a result, the first 6 months of the fiscal year have been a hit-or-miss nightmare for many SBIC's that needed leverage to continue financing small firms.

During the first quarter, that is October through December, some $4 million of the $10.2 million in maturing debentures were, in fact, refinanced. This allowed the industry to draw down $28 million in new leverage, but that amount was far short of the level applied for, and a number of SBIC requests were either reduced, deferred, or rejected.

The second quarter was even worse. SBA had $42 million allotted for that quarter, because there was a large potential rollover during February of some $43 million. SBA completely shut down the loan window for the months of January and February. This action left many SBIC's which had hoped to secure leverage high and dry, particularly those which had been deferred from the previous quarter.

As it turned out, some $14 million, or 34 percent of the $43 million in maturing debentures were, in fact, refinanced. So, SBA opened the loan window again in March, announcing it had $27.6 million available. As you might expect, applications for funds were substantial, totaling over $47 million. So, again, many requests were reduced, deferred, or rejected.

The remaining 6 months appear to be just as bleak, if not even worse. SBA has some $84 million in remaining leverage authority for the rest of the year, but it is faced with outstanding debentures which mature during that period of over $101 million.

The worst-case scenario would be that all the maturing debentures would have to be refinanced. If that happened, SBA itself would have a fund shortfall and wouldn't have enough money to pay it off.

Obviously, they don't, and we don't expect that to happen. Perhaps more realistically, if the payoff rate of the previous experience—some 34 percent paid off during the second quarter—held true for the balance of the year, that would mean about $34 million would be refinanced, and there would be $50 million available for new leverage to the industry.

That amount, in our judgment, will again fall very short of the true level of leverage needed by the industry to service its small business partners.

And, once again, unless the authorization level is increased, many SBIC applications for funds will be reduced, deferred or again rejected. This continuing roller coaster is disruptive to any sensible planning by an SBIC for a stream of investments.

The end result will be a critical shortage of capital for small firms at the very time they need the money to take advantage of our expanding economy.

We strongly recommend an immediate increase in the fiscal year 1983 authorization level as an amendment to your current bills.

In conclusion, Mr. Chairman, as I indicated previously, the industry is currently investing funds in emerging growth companies at a record rate of over $28 million a month, or $342 million a year.

According to our studies, this means the industry's investments are creating permanent new jobs at a rate of over 4,000 jobs a month, over 52,000 new jobs a year at no cost to the Government.

Clearly, the results achieved through this program should not only be sustained, but they should be expanded.

In my view, small business has the potential to be the cutting edge for economic growth as this country moves out of its current economic doldrums. Our industry is committed to providing that growth capital, and given the necessary resources, we intend to do that job.

Thank you, Mr. Chairman.

[Mr. McNeish's prepared statement follows:]

PREPARED STATEMENT OF PETER F. MCNEISH, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES, WASHINGTON, D.C.

Thank you for the opportunity to testify today on H.R. 860 and H.R. 2132, bills which, among other things, authorize program levels for the Small Business Administration for fiscal years 1984 and 1985.

I am Peter F. McNeish, Executive Vice President of the National Association of Small Business Investment Companies [NASBIC], the trade association which represents the Small Business Investment Company industry. My testimony will focus on those sections of the bills relating to Small Business Investment Companies [SBIC's].

As you know, Congress created the SBIC program in 1958, when it passed the Small Business Investment Act. Although there is great diversity within the industry, several general comments can be applied to all SBIC's. SBIC's are investment firms created for the purpose of providing equity capital, long-term loans and management assistance to new and growing small business concerns. SBIC's are privately-organized, privately-capitalized and privately-managed. In addition, all SBIC's are licensed and regulated by the Small Business Administration.

In 1983 we will mark the 25th anniversary of the SBIC program. The motto we've adopted for our silver anniversary year is "SBIC's Build U.S. Business." We're proud of our industry's record of providing venture capital and management counsel to thousands of diverse, growth-oriented small firms throughout America.

I believe we can all agree that the sustained development of emerging growth companies will play a vital role in our nation's economic recovery. A healthy venture capital community is essential to help those companies achieve their potential.

THE INDUSTRY'S RECORD

Over the past 24 years, SBIC's have invested almost $4.5 billion of equity capital and long-term venture loans in over 60,000 small business concerns. Today, over 360 SBIC's, with assets of more than $2 billion, are actively engaged in the financing of emerging growth companies.

These financing statistics and the increased number of large, new SBIC's coming into the program are clear evidence that in spite of uncertain economic conditions, hundreds of venture capitalists and entrepreneurs are willing to risk their money and reputations on the ability of innovative, well-managed small firms to grow and be profitable.

ECONOMIC IMPACT OF SBIC ACTIVITY

In 1979, in an effort to determine the impact of SBIC investments in small business, NASBIC commissioned the international accounting firm of Deloitte, Haskins & Sells [DH&S] and the economic consulting firm of Arthur D. Little, Inc. to do a data base survey of SBIC portfolio companies. The survey, completed in early 1980, showed that SBIC-financed small firms experience growth rates almost 10 times as great as those of other small companies in such key areas as sales, profits, and employment. The study also showed that the growth of Federal tax payments of SBIC portfolio companies is over 5 times that of all other small concerns.

Incidentally, these figures are compatible with those derived from a study conducted independently by the Investment Division of the Small Business Administration.

ATTITUDE OF SBIC PORTFOLIO COMPANIES

While the figures from these economic impact studies are impressive, the results would be less important if the small concerns that the SBIC program was designed to promote did not value SBIC assistance. We're pleased to point out that SBA's own surveys over a period of 6 years fully demonstrated that SBIC portfolio companies place a high level of value on the assistance they received from SBIC's. Over 95 percent of the entrepreneurs questioned said the SBIC investment was of significant importance to their firm's growth, and 90 percent confirmed that they were satisfied with their SBIC relationship. The portfolio companies in SBA's surveys were selected on a statistically random sample basis and responses were given anonymously in order to assure the replies were credible and unbiased.

COSTS/BENEFITS OF SBIC PROGRAM

Deloitte, Haskins & Sells followed up its economic impact survey with a second study, designed to measure the direct cost to the Federal government of the SBIC program, and the benefits generated by SBIC activity. DH&S found that in 1979, Uncle Sam spent only $4 million to run the SBIC program—$2 million on administrative costs and $2 million to cover losses on loans to SBIC's. In return for that $4 million, the Federal Government received a total of $440 million in increased tax payments from SBIC's, their portfolio companies, and the employees of those portfolio companies—a cost/benefit ratio of 1 to 110. I believe there is no other government program that comes even close to generating such tremendous benefits at virtually no cost to the taxpayer.

JOB CREATION THROUGH THE SBIC PROGRAM

It almost goes without saying that job creation is a vital public policy issue today, because of depressed economic conditions and painfully high unemployment rates. The SBIC industry is extremely proud of the fact that it has compiled an outstanding record of job creation through investments in small growth firms.

David Birch of MIT found, in his landmark study of the job creation process, that two-thirds of all the net new jobs were created by firms with 20 or fewer employees and 80 percent of these jobs were in companies 4 years old or younger.

These are exactly the types of companies in which SBIC's invest. The 1982 SBIC Annual Financing Survey from the SBA indicates that 65 percent of the financings and 68 percent of the dollars disbursed by SBIC's went into firms 4 years old or younger. And 64 percent of the new 1982 portfolio companies had fewer than 20 employees.

The most important conclusion from the DH&S/ADL economic impact study is that SBIC investments produce jobs. The study showed that a new, permanent job was created for each one-time, nonrecurring SBIC investment of $6,463.

The Deloitte, Haskins & Sells study also reached another striking conclusion—that the actual one-time cost to the Government of creating a permanent, full-time job through the SBIC program is only $312.

We believe this is a remarkable result, particularly when you consider that the $312 figure represents the gross cost involved. If the increased tax revenues generated by the program were taken into account to determine net cost, the bottom line would be that the SBIC program creates permanent, new jobs at absolutely no cost to the Federal Government. In fact, the Government gains net revenues. Other Government programs spend $20,000 or more on a recurring yearly basis to support a single temporary job.

Mr. Chairman, I believe these studies prove beyond the shadow of a doubt that the SBIC program is not only an extremely cost-effective method of channeling venture capital to promising young companies, but that is also a uniquely targeted economic initiative. It helps small business, creates jobs, develops new technologies and generates additional tax revenues. We feel the SBIC program is a proven success on every count.

SBIC LEVERAGE—H.R. 860 AND H.R. 2132

SBIC's are authorized to borrow on a long-term basis from the Federal Government under a guaranty supplied by the SBA. This is commonly referred to as "leverage," and SBIC's pay the full cost of money to the Treasury plus a premium for these borrowings.

As we have testified before your committee on a number of previous occasions, it is clear that our industry needs a substantial increase in the level of leverage available from the SBA in order for SBIC's to continue the process of creating jobs and investing in small growth industries. Under present law, SBA can guarantee only $160 million in leverage in fiscal 1983 and 1984. That is far too little to quench the thirst of small firms for critically needed growth capital as we turn the corner toward economic expansion.

The need for an increased authorization level is both immediate and long term.

To meet the industry's critical short-term needs, we strongly urge the committee to amend the bills it is considering to increase the current fiscal year 1983 authorization level from $160 million to $250 million. This proposed increase in the authorization level will have no impact whatsoever on the SBA's congressionally approved budget authority for the current fiscal year, since there is significant unused guaranty authority in other Agency programs within the overall Business Loan and Investment Fund.

For the longer term, we fully support the provisions of H.R. 2132 which would increase the SBIC program authorization level to $250 million in fiscal year 1984 and $330 million in fiscal year 1985.

Let me explain why these increased authorization levels are justified. When you look at events that have taken place in the SBIC industry during the past few years, it becomes clear that several interrelated developments are driving this need for increased leverage.

First, during the past 6 years the SBIC industry itself has been on a fast growth track. The industry has been expanding at a record pace by every measure. During that period there has been a 33 percent growth in the number of SBIC's to over 360 active companies. More new SBIC's have been licensed in the past 6 years (223) than in the previous 13-year period (163). In and of itself, that growth implies an increase level of demand by these new companies for leverage.

Second, the average size of the new SBIC's that were licensed during the past 6 years was over $1.2 million. This suggests a continuing entry into the program of SBIC's which have larger capital base, an ability to attract strong management teams and the capacity to invest substantially more funds in emerging growth companies. It also implies an increased demand for new leverage from the SBA.

Third, it should be noted tht SBA itself has proposed, and will shortly put in place new regulations which increase the minimum capitalization for an SBIC from $500,000 to $1 million. We support this change for a variety of reasons, but we would point out that the increased capital base will result in larger SBIC's seeking larger amounts of SBA leverage.

Fourth, during the last 6 years the total private capital in the SBIC industry doubled to over $800 million. New licensees brought in $270 million of fresh private capital; while the mature SBIC's added more than $130 million to their capital base, from either newly invested external capital or the capitalization of retained earnings. These additions of private capital place an even greater demand on the need for increased leverage.

Fifth, the program's most important measure of growth involves the amount of money SBIC's are investing in small businesses. The record of growth in investments has been striking. The amount of funds invested annually has almost tripled from $129 million in 1976 to a record high of $333 million in calender 1981. The level of investments tapered off only slightly in 1982 to $323 million. During the first 2 months of 1983 this record-high rate of investment activity has been maintained, with $28 and $29 million invested respectively in January and February. If this pace of investments holds throughout the year, 1983 will set another record for SBIC investments in small firms. Without additional leverage, however, this activity level cannot be sustained. Placing arbitrary limits on acess to new leverage forces SBIC's to carefully husband their current funds for necessary second-round investments in existing portfolio companies; and it significantly reduces the industry's capacity to make new investments.

Sixth, the soundings we take in the industry clearly indicate that there is a continuing high level of good, quality "deal flow" being presented to the industry. We believe this reflects the unbridled spirit of the American entrepreneur who continues to see new markets of opportunity, even in times of economic recession. And we have every reason to believe that optimistic spirit will grow stronger as the economy rebounds, generating an even greater level of requests for financing from SBIC's.

Seventh, one very practical consideration is that with the moderation in interest rates generally, the borrowing rates for SBIC's have once again become relatively attractive. Rates are now in the range of 10 percent, as opposed to the 15- or 16-percent rates of not so many months ago. Many SBIC's were justifiably reluctant to get locked in to long term borrowings at such high rates. At the same time, because of the possible need to refinance large amounts of maturing debentures, there has been a great deal of uncertainty regarding the availability of "new" leverage from SBA. As a result, many SBIC's deferred borrowing requests and we know that SBA now faces a significant pent-up demand for leverage which is beginning to emerge.

Eighth, the sharp change in the character of SBIC investments also plays a role in the leverage issue. The average size of an SBIC financing has increased by 50 percent, from $100,000 in 1976 to almost $150,000 in 1982; while the average equity investment has more than doubled from $125,000 to $275,000. At the same time, there has been a major increase in the proportion of straight stock and equity type investments made by SBIC's, going from 50 to 72 percent of all financings in 1982. SBA data also show that SBIC's are allocating a larger share of their dollars to start-up financings. One impact of this new portfolio mix is that SBIC's will have larger amounts of money tied up in more start-up and equity-type deals, with the return of the SBIC's capital occurring at a slower rate. This mix will put additional pressure on the liquidity needs of SBIC's, and cause an increased demand for access to leverage.

Finally, although the Small Business Investment Act of 1958 authorizes SBIC's to leverage their private capital at a ratio of 3 to 1 (4 to 1 for a restricted class of companies), the data show that the industry has only drawn down leverage at a ratio of a little more than 1 to 1 on an aggregate basis. Stated another way, in reliance on the explicit promise of the statute, private investors now have some $800 million of their own capital at risk in the SBIC industry with the expectation that they will be able to borrow some $2.4 billion from the Government. That expectation is currently unfulfilled to the extent of $1.6 billion, and the promise will never be met unless the authorization level is substantially increased.

When you add up all of these developments, they spell out a simple arithmetic conclusion. Unless the amount of leverage is increased, the industry will exhaust its available liquid resources, SBIC's will have insufficient funds to finance small business requests for growth capital, and the program will grind slowly to a halt.

This result would be a devastating blow to emerging growth companies. Such a scenario would impact most adversely on entrepreneurs seeking SBIC dollars to start new businesses and on owners of small firms in need of venture capital to expand their companies to bring new products and new services to the American economy.

Perhaps even more important, it would severely injure the job creation process at the very time our economy needs the stimulus of new jobs.

In our view, the better answer is to increase the program's authorization to a reasonable level which will serve the interests of the small business community and the Nation.

THE BALANCE OF FISCAL 1983

The remaining 6 months of fiscal 1983 present very serious leverage problems for the SBIC industry. The House recognized some time ago that the authorization level of $160 million for fiscal year 1983 was going to be grossly insufficient. Regrettably, your committee's efforts to increase that level to $250 million were not successful.

At the outset of fiscal 1983 we were faced with an authorized program level of $160 million, and some $155 million of maturing debentures which would have to be refinanced by the SBA if the SBIC's holding those debentures did not have sufficient liquid resources to pay them off. Under Federal budget accounting procedures, the "rollover" or refinancing of these maturing debentures counts as if they were new loans. As a result, the present ceiling for fiscal 1983 could have been virtually exhausted merely by rollover of maturing leverage, with no "new" money whatsoever for the industry.

Another part of the problem is that those maturing debentures come due unevenly, at various times during the year. This has made it very difficult for SBA to allocate funds throughout the year; and it has been virtually impossible for the industry to plan on drawing down new funds with any degree of certainly.

As a result, the first 6 months of the fiscal year have been a hit-or-miss nightmare for many SBIC's that needed leverage to continue financing small firms. During the first quarter of the year (October through December), some $4 million out of $10.2 million in maturing debentures was refinanced. This allowed the industry to draw down $28 million in new leverage, but that amount was far short of the level applied for and a number of SBIC requests were either reduced, deferred or rejected.

The second quarter (January through March) was worse. SBA had $42 million alloted for that quarter, but because there was a large potential rollover during February of $43 million, SBA completely shut down the loan window for the months of January and February. This action left many SBIC's which had hoped to secure leverage high and dry, particularly those which had been deferred from the previous quarter. As it turned out, some $14.4 million (34 percent) of the $43 million in maturing debentures had to be refinanced; so SBA opened the loan window in March, announcing it had $27.6 million available for new leverage. As you might expect, applications for funds were substantial, totaling $47 million; so, again, many requests were reduced, deferred or rejected.

The remaining 6 months look even worse. SBA has $84 million in remaining leverage authority, but it is faced with outstanding debentures which mature during that period of $101 million. A worst-case scenario would be that all the maturing debentures would have to be refinanced. If that happened, SBA would itself have a funds shortfall of $17 million and there would be zero new leverage available for SBIC's. A more realistic scenario would be that the payoff rate of 34 percent during the second quarter might be maintained (although that's purely speculative), in which case some $34 millon would be refinanced and there would be $50 million available for new leverage for the remaining 6 months of fiscal 1983. That amount, in our judgment, will again fall far short of the true level of leverage needed by the industry to service its small business partners. And once again, unless the authorization level is increased, many SBIC applications for funds will be reduced, deferred or rejected. The end result will be a critical shortage of capital for small firms at the very time they need the money to take advantage of our expanding economy.

An immediate increase in the fiscal 1983 authorization level to $250 million is very important, and we urge an amendment to that effect in the bills you are considering.

CONCLUSION

As I indicated previously, the SBIC industry is currently investing funds in emerging growth companies at the record rate of $28.5 million a month, or $342 million a year. According to the analysis of our studies, this means the industry's investments are creating permanent, new jobs at a rate of 4,385 jobs per month, or over 52,000 new jobs a year, at no cost to the Government. Clearly, the results achieved through this program should not only be sustained, they should be expanded.

In conclusion, I would like to express my opinion that small business will provide the cutting edge for economic growth as the country moves out of the current recession. The SBIC industry is committed to providing growth capital to emerging small firms which create new jobs, launch new technologies and build productive capacity into America's economic system. Given the necessary resources, we are prepared to do that job.

I appreciate the opportunity to testify at this hearing, and I applaud your continued support for small business. Thank you.

Mr. Mitchell [presiding]. Thank you very much. I listened with sympathy to your testimony. But quite frankly, it was kind of tough to get the $250 million that we now have included for 1984 and over $300 million for 1985.

You know the mood of the Congress. It's going to be tough to just sustain that position. I'm not saying that we wouldn't try to do more but I think you ought to know the realities of the Congress.

Mr. McNeish. Well, we support those figures, Mr. Chairman, very strongly.

Mr. Mitchell. What would you be seeking if you could get additional leveraging through SBA?

Mr. McNeish. In terms of changing the current 3 to 1 ratio, for example?

Mr. Mitchell. Right. It's 3 to 1 now.

Mr. McNeish. We don't recommend that being changed. We think that's quite sufficient. The industry itself has only drawn down leverage in an overall ratio of about 1 to 1.

Mr. Mitchell. Oh, I'm sorry. I thought you were asking for increased leverage ratios with the SBA funds.

Mr. McNeish. No. We're simply asking for an increase in the dollar levels to what your bill recommends but not the ratio itself.

Mr. Mitchell. I'm sure you're aware of this April 8, "Wall Street Journal" article on the SBIC financing of the movie industry?

Mr. McNeish. Yes, sir.

Mr. Mitchell. It's critical, in many respects, of SBA money going in first and being repaid last and that the Government always loses. I think that this one particular case with reference to the motion picture industry they're estimating an apparent loss of $11 million or something like that.

Would you care to comment? Are you familiar with this particular situation?

Mr. McNeish. Yes, I happen to be. I was at the SBA at the time that company was licensed.

Mr. Chairman, let me say two things: That company was licensed under what was clearly identified as an experimental program. In fact, this committee held a special hearing on that experimental program. Mr. Addabbo at the time was concerned about the selection process when some six companies were chosen to participate.

And it was, as I recall, a very lengthy, certainly a friendly and not acrimonious hearing, but there were questions, very justifiable questions that were brought to bear and, I think, substantially responded to at that point in time.

My point is that it was clearly an experimental effort. Movie financing, as you may know, and just from my limited knowledge, is a very complex field that has its own set of accounting standards and its own methodologies that relate to not only the major movie producers that do a lot of the current financing, but also gets into very complex distribution systems including both domestic and international distribution rights.

So the SBA, after the special hearing with this committee, went forward on a very limited experimental basis with a clear earmark-ing of a limited amount of dollars, aware of the risks that were involved. In fact, of the six companies that were chosen to participate, only one was ever actually licensed. That's the company that was referred to in the article.

That company, by the way, happens to have a piece of "Gandhi" as an investment. The principals I've talked to, if only out of my own curiosity, advise me that over time they fully expect that the SBA will not only recover its money but the company will itself make a profit. It may be a long time before those receipts come in from films like Gandhi and others. Based on that record the SBA concluded—and it was probably one of my last official recommendations—that the pilot program was not a success, it did not work out as some had anticipated, and it was closed down.

But the one company had been licensed and we felt in good conscience that we had to continue working with them. They have fallen on bad times in terms of some of their investments, but my understanding is that they will probably recover from that over the long haul.

Mr. MITCHELL. I wasn't trying to put you on the spot.

Mr. MCNEISH. I know very well you were not.

Mr. MITCHELL. Because, like Mr. Smith, you expect some losses. I've never known the American economy to operate without some losses.

Mr. MCNEISH. That's the whole risk/reward process.

Mr. MITCHELL. Everyone becomes very irate when there are Federal funds involved. But they fail to measure that loss against the success stories that are achieved using Federal funds.

Thank you very much, sir.

Mr. MCNEISH. My pleasure. Thank you.

Mr. MITCHELL. Our hearings are recessed until April 27 at 9 in the morning.

Thank you very much for your participation.

[Whereupon, at 11:08 a.m., the subcommittee adjourned, to reconvene at 9 a.m., Wednesday, April 27, 1983.]

SBA AUTHORIZATION AND OTHER SMALL BUSINESS LEGISLATION

WEDNESDAY, APRIL 27, 1983

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2359-B, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. This morning we are continuing the current series of hearings on pending SBA legislation. In all, there are some 11 bills now pending before the subcommittee. These bills fall into four primary areas:

First, changes in the SBA programs which are embodied in the legislation such as H.R. 403 by Mr. Neal Smith, and H.R. 860 which I introduced.

The next category would be SBA authorizations for fiscal years 1984 and 1985 as embodied in H.R. 2132 which I introduced.

The third category, changes in the SBA's nonphysical disaster program, such as are embodied in the following House bills: 620 by Congressman Kazen; 1593 by Congressman Bates; 1929 by Congressman Udall; 2317 by Congressman de la Garza. By the way, these pieces of legislation are primarily aimed at two distinct areas: The impact of the peso devaluation, and the disasters that have occurred on the west coast.

And finally, the last category would be changes in the physical disaster system's loan program which are embodied in H.R. 592 by Congressman Gore, Congresswoman Boxer has H.R. 1375, Mr. Gejdenson, H.R. 1779, and a bill which I have introduced, H.R. 2583.

This morning we are pleased to receive testimony from several Members of Congress. We then anticipate hearing from the SBA Administrator, Mr. Sanders, and we will conclude our testimony with private witnesses.

I'm delighted to see my good friend, Congressman Oberstar, here. Please, we are at your disposal. It's always a pleasure to see you and an honor, really, to have you testify before our subcommittee.

TESTIMONY OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA, AND CO-CHAIRMAN, NORTHEAST-MIDWEST COALITION

Mr. **Oberstar**. Thank you very much, Mr. Chairman. I didn't really come here to give testimony. I came to hear myself introduced by Congressman Mitchell. You could do that in my district any time.

Mr. **Mitchell**. Any time you want, Mr. Chairman.

Mr. **Oberstar**. Mr. Chairman, I come here on behalf of the Northeast-Midwest Congressional Coalition, a grouping of Members of Congress from 18 Middle Atlantic, New England, and Great Lakes States whose purpose is to advance the needs of basic industry, jobs, and community development in our region to equalize the Federal policies among the regions of this country, and to focus on particular needs of the region which has been disadvantaged by Federal policies that have benefited, wittingly or unwittingly, other areas of the country. We are grateful that you are one of the members of our steering committee and appreciate the contribution that you have made on behalf of the State of Maryland.

The principal interest of our coalition in both H.R. 860 and H.R. 2132 are the targeting features of those two pieces of legislation. I will direct my testimony principally to those aspects, not to the exclusion of other provisions of the two bills, because there are many other provisions that I would personally support and that I'm sure the members of our executive committee would support. They are very comprehensive bills, but principally because those are the concerns that this coalition has identified and made a principal goal in its existence is to focus Federal resources more specifically on the unique problems of our region.

Another goal of the coalition has been to support a strong, healthy, and progressive small business sector. That has been a principal objective of legislation supported by the coalition, of hearings that we have initiated throughout our region, and of seminars and publications that the coalition has produced.

The targeting to unemployment needs in the current economic climate and throughout the past 2 years, and as far as we can see into the visible future, misty and dim though it may appear to some of us is an overriding concern. The rosiest projections of the administration to the contrary notwithstanding, unemployment is going to be with us for a long time and at high and unacceptable levels.

In the Midwest, unemployment stands at an average of 14 percent. In my congressional district, the seven northern counties—an area about the size of from here to Hartford, Conn.—unemployment stands at 22 percent. We have cities with 80 percent unemployment. We have whole towns that are shut down because of the decline in steel and the iron ore-dependent economy of northeastern Minnesota has literally caught pneumonia and is in terminal condition.

Targeting for the small businesses in those areas means directing the resources of the Federal Government to those who are hurting the most and need help the most. There are large numbers of workers in American industries throughout our region who may never find work again at their former skill or vocation. We are going through a profound transformation in the basic industrial resources of the northeast-midwest region. We need to find new means of stimulating jobs, industry, and economic recovery.

We have determined that through the small business sector we can generate the most direct and most diversified systems to our area. Small businesses as you know, as chairman of this committee, better than anyone else, generate more jobs than any other sector of our economy. They are responsible for most of the new ideas that have entered the marketplace.

Eighty percent of the new jobs created in the last 10 years, according to studies that the Small Business Administration, MIT, and others have undertaken, are created by small businesses.

The two bills that I have directed my testimony to, H.R. 860 and H.R. 2132, build on that record of achievement by the small business sector of our economy. Loan targeting is one of the features of this legislation. H.R. 860, as I understand it, will direct Federal agencies to target contracts and small business set-asides to firms in areas of high unemployment on a hierarchy of need, with small businesses in high unemployment areas at the top of that hierarchy.

Now that is not a new concept, but it is one that is reinforced in a very specific way as I read the bill, in that legislation. I would urge the committee to develop that concept, strengthen it if possible, but at least in the form in which it appears in H.R. 860, we think it is an extremely important matter.

I mentioned the displacement of workers. There is a plethora of information flooding the literature today about structural unemployment and workers who are going to have to be retrained any number of times in their working career. There are numerous Federal programs that are to help workers train for new jobs. We've just passed the Job Training and Partnership Act, but that does not appear to be enough.

All of these programs are somewhat separated from the reality of the marketplace. Nothing could have expressed it better than an unemployed steelworker. When I was in northern Minnesota a few weeks ago the unemployed worker stopped me as I was leaving a restaurant from a meeting with other unemployed people. He said: "Jim, when you get back to Washington would you please tell Mr. Reagan I'm sick and tired of being trained for jobs that don't exist. Tell him and tell your friends in the Congress to create some jobs for us. We have the skills, we can learn on the job." That's coming right from the heart.

Your bill does provide up to $2,500 in training grants to employers. Well, that's a reverse twist on a piece of legislation that was enacted during the Carter administration, the tax credit for job training. A tax credit doesn't do a whole lot of good for a small business just getting started or weathering a rough storm. Furthermore, there was an upper limit on the amount of money that small businesses could take advantage of under that tax credit program.

It sounded good. It was a great idea, but it didn't work very well. Small businesses bypassed it in favor of other incentives.

The training grants will give them the upfront money that a small business needs in hard times and in difficult economic circumstances where they're capital short on the front end, where they are starting up, trying to expand, or merely just trying to tread water and stay even.

I could cite the example of Red Lake Indian Reservation in my district which is trying to restart a sawmill. What they need is managerial talent. They've got the folks who know how to cut the wood and they've got one of the richest wood supplies in the Upper Midwest on that Indian reservation, the ideal long-fiber softwoods; but they don't have the managerial talent.

And if they could bring somebody onboard and get a grant upfront to put that person to work, get the training on the job, and get this firm going they could hire 20 or 30 people. Now that kind of a system is going to be helpful.

I asked the folks from the Red Lake Reservation last Saturday at a meeting in my district why they couldn't take advantage of the tax credit under existing law. They said, "Well, you have to make a profit in order to use the tax credit. We aren't making a profit right now."

So if you can stick with your guns on that provision of grants upfront to help businesses get started when they are most capital short, when they are most in need of assistance, you'll be doing an immense service. That would help a business move in the direction it wants instead of being restricted to going to the vocational-technical schools and plucking people out and then retraining them even further to meet specific or tailored needs of that business.

One of the most critical areas is capital formation, capital markets. My testimony gives some details. What I am really excited about in this bill is your concept of allowing the Federal Government to, in effect, be a partner in the equity formation of a small business firm. The provision that allows stock purchase of up to $750,000 in small business by an essentially neutral partner is a truly exciting and new idea.

It, like the grants for training, is going to give small businesses the opportunity they need to get started without the heavy overload of lack of capital resources, having to go in debt finance, and make heavy front-end payments when they can't afford it. If we're going to expand this economy of ours we've got to provide some front-end assistance and not expect that we can set all these small businesses to sail on the blustery seas of recession.

I can cite an example of an innovative energy alternative energy-producing firm in my district, just floundering, struggling, trying to get things started. If they could get things going they'd hire 150 to 200 people, but they don't have the equity financing. They've got to train people. They don't have the money for the training. If they could get the $2,500 per person grant up front and a $750,000 equity investment from the Federal Government as described in H.R. 2132, they'd be off and running. They'd be producing methanol from decaying wood fiber.

We have enormous amounts of wood fiber that is being wasted. It could be converted to alcohol fuel with residue for animal feed, and export products of wood pellets, all can be made out of one plant. But the firm can't get started because they don't have the resources. In these tough times the banks aren't willing to put risk venture capital into entities of this kind.

We don't have a small business investment corporation in northeast Minnesota that's willing to take risks in an economy that has 22-percent unemployment and the prospect of worse. In an economy where there—from Duluth to the Canadian border, a distance from here to Harrisburg—are only two construction projects, you don't get that kind of investment capital.

So what your legislation does, Mr. Chairman, is help those small businesses take those risks, accept a reasonable share of the risk in the economy, but not accept the burden for the whole recession that we are suffering today.

Mr. **MITCHELL**. Thank you. Thank you very much for your testimony. As usual you are right on target, analytical and clear.

I absolutely agree with you in terms of tax incentives. I think we have gone in that direction too far and it's not doing the small businesses much good. They need access to capital and money to train people. It's just that simple.

Also, I'd like to comment that the job training portion of the bill has been enthusiastically received wherever we have been. The last hearing in Raleigh I expected the witnesses to focus in more on other features in the bill, but most of them talked about the job training feature.

Also, I just want to share one thing with you. Monday I attended a press conference in my city of Baltimore whereby 12 banks had finally agreed to come together as a kind of consortium. They formed a free standing corporation and in cooperation with the State of Maryland which has put in about $2.5 million—and that's for the next 3 years—they will guarantee four times that amount for loans to minority businesses.

If you will give me a call I would like to send you that package. It's the first time that—I don't know of any other State that has done this: State money plus the banks, a free standing corporation to work with minority business.

Mr. **OBERSTAR**. Mr. Chairman, I would love to have that information. I would like to get a packet of that and take that with me back to Minnesota this weekend where I have a meeting with a number of businessmen and small businessmen.

Mr. **MITCHELL**. It took more than a year to put it together. And the first loan is to be made this week.

Mr. **OBERSTAR**. Oh, that's terrific. I salute you to working that achievement.

Mr. **MITCHELL**. Well, not just me. It was the Greater Baltimore Committee, the banks, a number of other groups. Twelve or at least 12 people representing diverse interests working on this package.

Mr. **OBERSTAR**. Plus you've got an exciting mayor up there who is willing to take a risk and do things.

Mr. **MITCHELL**. That's right.

Mr. **OBERSTAR**. William Donald Schaefer has been a star performer at my Subcommittee on Economic Development with his innovative approaches.

Mr. **MITCHELL**. And his futuristic charts.

Mr. **OBERSTAR**. Yes. Oh, goodness.

Mr. **MITCHELL**. Thank you very much, Congressman. We really appreciate it.

Mr. OBERSTAR. Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman de Lugo. We missed you a great deal. You left us briefly. We're very excited that you're back with us. Won't you stay with us?

TESTIMONY OF HON. RON de LUGO, DELEGATE IN CONGRESS, THE U.S. VIRGIN ISLANDS

Mr. DE LUGO. Thank you very much, Mr. Chairman. It's good to be before your committee. First of all, before I begin may I ask that my formal statement be made a part of the record?

Mr. MITCHELL. Without objection, the entire statement will be submitted for the record.

Mr. DE LUGO. Mr. Chairman, I'm before your committee this morning quite frankly to ask for your help and the help of this committee. The U.S. citizens in the Virgin Islands simply need your assistance. The SBA simply is not doing the job that the Congress intended it to do and not even coming close in this U.S. territory.

When we talk about the Caribbean Basin Initiative, the United States in the Caribbean is perceived through the Virgin Islands. That's just a fact of life if you live in Antigua, Dominica, St. Lucia, or any of the other islands of the Leeward Islands or the Lesser Antilles.

As you know, Mr. Chairman, the U.S. Virgin Islands is a post-of-duty office under the SBA District Office in Puerto Rico, within region II, which is headquartered in New York. Only one other State has to cross State lines to a district office, and that's Delaware. All others have at least one, and in many cases several district offices within their boundaries.

For the past year now, only one staff position has been allocated for the U.S. Virgin Islands, that's three separate islands. There is a 40-mile separation between St. Thomas and St. Croix. Only one GS-12 now has the complete responsibility for all three islands. He has been without any vehicle for over 18 months, and you can see that that makes it just about impossible for him to get around to service or make any outreach or educational programs for SBA which is sorely needed in the Virgin Islands. Nor can he properly service inquiries, assist in preparing loan applications, make any onsite visits, or even handle all the typing and other clerical duties incumbent on the office.

And, quite obviously, it's exceptionally difficult for him to get to the island of St. Croix 40 miles away.

All requests to reinstate the two deleted positions have been turned down. The district office in Puerto Rico claims that the hiring freeze makes this impossible. Even minor requests for items such as office supplies are met with reluctance, and the district office flatly turned down a request for some inexpensive, part-time office space on the island of St. Croix that would have helped the sole staff person in the Virgin Islands to give some service to the island of St. Croix which has a lot of economic difficulty and is the island with the largest population at the present time.

Recently, through an informal arrangement, 15 percent of SBA funds available to the district office have been set aside for the

U.S. Virgin Islands, with the understanding that if not utilized, they would revert, or rather, remain within the district office. This has never been the case.

In reviewing the total loan figures since 1978, it is evident that the Virgin Islands has never received 15 percent. The average has been more like 5 percent. I have attached to my statement a breakdown of those figures.

What we actually have here, Mr. Chairman, is a classic situation. The demand is there, as I will demonstrate, but with only one staff person, with no outreach person, it's a big secret to people of the Virgin Islands that this help is available. With no resources to educate the market or assist interested parties, then obviously the applications are not flowing in. Obviously, we cannot utilize fully the set-aside, and obviously, the district office feels fully justified in rescinding the funds and in rejecting requests for additional staff.

You know, it's just a cruel hoax.

Let me tell you for just a moment about my constituents. According to the 1980 census, nearly 80 percent of the people of the U.S. Virgin Islands are black, and of that amount, about half were born in the U.S. Virgin Islands. The remaining half, most of them are naturalized citizens who were born in our neighboring islands to the east and the south.

We not only share close cultural, social, and political ties with these neighboring islands, but also as I said, for them we are the United States. Their perception of American policy is made through their view of the U.S. treatment of its territory, the U.S. Virgin Islands. Half of my constituents are on the phone every night talking to their mothers and fathers and relatives back on the islands of St. Lucia, St. Kitts, Grenada, and so forth, telling them exactly how we're operating in the Virgin Islands.

That our citizens should receive such shabby treatment by an agency designed to encourage and foment minority-controlled business is to my mind a disgrace, and also a very serious mistake. Right now, the Reagan administration has pending before the Senate Finance Committee, the Caribbean Basin Initiative, a new policy developed by the administration designed to develop more business within the area, shore up the economies of these small nations, and thereby insure a pro-American stance within the area. It would be hardly in the best interest of the Reagan administration's policy plans for the SBA to continue to underserve the people of the U.S. Virgin Islands.

We have in the U.S. Virgin Islands a locally funded small business development agency, and I will just compare the two. This is the local effort. It's the SBDA. While only 28 loans were processed by the Federal SBA in fiscal 1982 for a total of $1.4 million, this local agency in this little territory, SBDA, had 226 applications for a total requested amount of $7,443,670.

We need additional staff. We need an office on St. Croix as well as St. Thomas. A few—let me stress this—a few temporary summer employees as the region II office is now proposing with a promise of perhaps one or two permanent staff when attrition throughout the region brings down personnel levels is not a fair, equitable, or even logical solution.

Nor is it equitable or logical to increase the number and frequency of circuit rider visits from Puerto Rico, as region II is also proposing. The circuit riders could be more logically and cost effectively replaced by permanent staff within the Virgin Islands. By the time you spend all of this—the time that is lost at airports, the time that these little commuter planes are supposed to leave, they don't leave on time, or the entire flight is canceled, the time that is wasted by these circuit riders, and the cost in travel and transportation makes that just a very poor proposal.

As a first choice, I would urge the committee's support for the designation of the U.S. Virgin Islands as a district office. Now I realize that this would be somewhat out of the ordinary with our population. However, given the unique makeup of our population, given our cultural and language differences from the current district office, and especially given the fact that there is a lot of lost ground to make up for, I feel the designation of the U.S. Virgin Islands as a district office is fully justified.

If this cannot be accomplished, then, Mr. Chairman, as a second choice I would strongly urge that the U.S. Virgin Islands be designated a branch office with sufficient and adequate staff for both St. Thomas and St. Croix, and with loan officers empowered to authorize loans in individual amounts up to $350,000.

I note with interest, Mr. Chairman, that you have proposed, in H.R. 1985, that the ratio of employees in the field be significantly increased. I highly commend you for this proposal since it goes to the heart of the responsibilities of the SBA to go out to the public, to market its programs and assist in the utilization of these fine programs by the public. I also highly commend you on section 6 of H.R. 2132, which mandates the development of programs to train and upgrade the skills of employees and potential employees of small business concerns. All of these proposals would be ideal for the U.S. Virgin Islands and would, I am certain, bring about results which you and your committee would be justifiably proud.

I ask, however, Mr. Chairman, that the concerns that I have raised about the operations of the SBA in the U.S. Virgin Islands and the possible solutions that I have proposed be given your consideration.

Again, I thank you, Mr. Chairman. You do a fantastic job of telling it like it is, and that's why I've come to you to ask for help.

[Mr. de Lugo's prepared statement with attachment follows:]

PREPARED STATEMENT OF HON. RON DE LUGO, DELEGATE IN CONGRESS, THE U.S. VIRGIN ISLANDS

I appreciate very much this opportunity to bring before your committee my concerns over the operation of SBA in the U.S. Virgin Islands.

As you know, Mr. Chairman, the U.S. Virgin Islands is a post of duty office under the SBA district office in Puerto Rico, within Region II, which is headquartered in New York. Only the other state has to cross state lines to a district office, which is Delaware. All others have at least one, and in many cases several district offices within their boundaries.

The Virgin Islands post of duty office had operated with three in staff with a single office located on the island of St. Thomas. The U.S. Virgin Islands is comprised of three major islands, with the two most commercially active, St. Thomas and St. Croix, being roughly forty miles apart by plane.

Obviously, even with three in staff, the distance and the logistics of traveling between the islands meant that St. Croix was never being serviced properly. And this island, Mr. Chairman, is the one with the greatest need for SBA services. Our unemployment overall is approaching 10 percent. This is the official figure, but since we have only been developing these types of statistics for a few years, most knowledgeable observers feel this is considerably understated. Additionally, no one questions that unemployment is significantly higher on St. Croix than on St. Thomas, regardless of the overall figure for all three islands.

If that situation were not bad enough, for the past year now, only one staff position has been allotted for the U.S. Virgin Islands. Only one GS-12 now has the complete responsibility for all three islands. He has been without any vehicle for over 18 months, and as you can see it is patently impossible for him to do any type of outreach or educational program on SBA which is sorely needed in the Virgin Islands. Nor can he properly service inquiries, assist in preparing loan applications, make any on-site visits, or even handle all the typing and other clerical duties incumbent on the office. Quite obviously, it is exceedingly difficult for him to get to the island of St. Croix.

All requests to reinstate the two deleted positions have been turned down. The district office in Puerto Rico claims that the hiring freeze makes this impossible. Even minor requests for items such as office supplies are met with reluctance, and the district office flatly turned down a request for some inexpensive, part-time office space on St. Croix that would have helped the sole staff person in the Virgin Islands to give some service to that island.

Recently, through an informal arrangement, 15 percent of SBA funds available to the district office have been "set aside" for the U.S. Virgin Islands, with the understanding that if not utilized, they would revert, or rather, remain within the district office. This has never been the case.

In reviewing total loan figures since 1978, it is evident that the Virgin Islands has never received 15 percent. The average has been more like 5 percent, and while I am attaching a copy of SBA's own figures, let me just cite a few here. In fiscal 1978, a total of 1,058 SBA direct and guaranteed loans were approved for the island of Puerto Rico by the district office totalling $56,203,814. In that same year only 40 direct and guaranteed loans totalling $3.2 million were approved for the U.S. Virgin Islands. Last year, 345 loans totalling $27.7 million were approved for Puerto Rico and only 28, totalling $1.4 million for the U.S. Virgin Islands, in both cases the Virgin Islands share was 5 percent.

On the surface, it would appear that the U.S. Virgin Islands has been unable to utilize its so-called set aside, and that sufficient demand does not exist for those funds or for additional staff.

But, what we actually have here, Mr. Chairman, is a classic situation. The demand is there, as I will shortly demonstrate. But, with only one staff person, with no outreach program, with no resources to educate the market, or assist interested parties . . . then obviously the applications are not flowing in. Obviously we cannot utilize fully the "set aside", and obviously the district office feels fully justified in rescinding the funds and in rejecting requests for additional staff.

Let me tell you for just a minute about my constituents. According to the 1980 Census nearly 80 percent of the people of the U.S. Virgin Islands are black. Of that amount about half were born in the U.S. Virgin Islands, and of the remaining half most are naturalized citizens who were born in our neighboring islands to the east and south. We not only share close cultural, social and political ties with these neighboring islands, but also for them, we are the United States, and their perception of American policy is made through their view of the United States treatment of its territory, the U.S. Virgin Islands.

Yet, in all these years, only two section 8a loans were approved by SBA for the U.S. Virgin Islands. In 1979, the former director of SBA appointed a special 8a task force on the Virgin Islands which reported on this glaring shortcoming of the program. The report was apparently not acted upon, and SBA has not been able to locate any copies of that report. As an example of the insufficiencies of that program, a project that could have and should have gone to a local contractor—the repair of the old fort building in St. Croix—went instead to a stateside contractor.

That our citizens should receive such shabby treatment by an agency designed to encourage and foment minority controlled business is to my mind a disgrace, and also a very serious mistake. Right now, the Reagan administration has pending before the Senate Finance Committee, the Caribbean Basin Initiative, a new policy developed by the administration designed to develop more business within the area, shore up the economies of those small nations, and thereby insure a pro-American stance within the area. It would hardly be in the best interests of the Reagan administration's policy plans for the SBA to continue to underserve the people of the U.S. Virgin Islands. On the contrary, it is in the best interests of those policy goals to utilize to the maximum all opportunities for the development of small businesses in territory which is so closely related to those neighboring islands that it will be looked to for training, expertise and advice.

We have in the U.S. Virgin Islands a locally funded small business development agency (SBDA). Direct loans under that program are issued at a 10-percent interest, and guaranteed loans at 2 percent over prime. While only 28 loans were processed by SBA in fiscal 1982 for a total of $1.4 million this local agency SBDA, had 226 applications for a total requested amount of $7,443,670.

Now, with our local operating budget of $220 million now in a deficit position of some $30 million, our local government was hard put to service any loans at all. But, recognizing that SBA is virtually unavailable to the people of the Virgin Islands, our government continues to fund this local program, and in fiscal 1982 granted 14 loans totalling over $270,000 . . . the most it could do under our budget circumstances.

Many of the underserviced 212 applications should have and could have been serviced by SBA. I would like to emphasize here that we have no intention of dismantling our local SBDA program, but that local agency can hardly be expected to fill the gap left by the non-functioning of SBA in our community.

Rather than dismantle that progam, I believe it should be enhanced, and one of the quickest and most effective means would be through an extension of the section 503 program to our local agency and approval of that agency as non-bank lender.

However first and foremost, we must resolve the problem with the SBA treatment of the U.S. Virgin Islands. We need additional staff, and we need an office on St. Croix as well as St. Thomas. A few temporary summer employees as the region II office is now proposing with a promise of perhaps one or two permanent staff when attrition throughout the region brings down personnel levels is not a fair, equitable or even logical solution.

Nor is it equitable or logical to increase the number and frequency of circuit rider visits from Puerto Rico, as region II is also proposing. I understand that the operating budget of the district office in San Juan is roughly $2 million, and that employees on the island total 78 permanent and 29 temporary. I cannot confirm these figures to the committee, as I was told to put my request for confirmation in writing to the region II office. I also had to request in writing a breakdown of the cost of the circuit riders. I will certainly share those figures with this committee when I receive them. But, it would be fair to assume that given the cost of airfare between Puerto Rico and the Virgin Islands, and the high cost of per diems, meals and hotels, that the circuit riders could be more logically and cost-effectively replaced by permanent staff within the Virgin Islands. The district office in San Juan contends that circuit riders visit the Virgin Islands "four to five times" a month. At a recent meeting with the St. Croix Chamber of Commerce on March 30, 1983, five—yes, Mr. Chairman—five people were sent from Puerto Rico to attend that meeting at which the main point of discussion was the lack of staff in the U.S. Virgin Islands.

The district office in Puerto Rico has claimed that there are only 2,000 businesses in the U.S. Virgin Islands, versus 67,000 in Puerto Rico. I dispute their figures. In checking with the Virgin Islands Consumer Services Administration, Bureau of Licensing, I found that 14,000 applications were made last year for a business license which must be renewed annually. Even given the fact that some of these licenses are for more than one service by the same business. We estimate that there are at least 8,000 businesses in our community.

As a first choice I would urge the committee's support for the designation of the U.S. Virgin Islands as a district office. I realize that this would be somewhat out of the ordinary with our population. However, given the unique makeup of our population, given our cultural and language differences from the current district office, and especially given the fact that there is a lot of lost ground to make up for, I feel that designating the U.S. Virgin Islands as a district office is fully justified.

If this cannot be accomplished, then as a second choice I would strongly urge that the U.S. Virgin Islands be designated a branch office with sufficient and adequate staff on both St. Thomas and St. Croix, and with loan officers empowered to authorize loans in individual amounts up to $350,000.

I understand, Mr. Chairman, that a very large percentage of the funds that this Congress has made available to SBA for its loan programs has been turned back, particularly in the last fiscal year, and that half of the management assistance program and 70 percent of minority aid programs were also turned back. I can assure you and your committee, as well as the SBA administration, that if funding for these programs is made available, and I mean realistically available to the people of the Virgin Islands, turn-backs will not be a problem.

I note with interest, Mr. Chairman, that you have proposed in H.R. 1985 that the ratio of employees in the field be significantly increased, and I highly commend you for this proposal since it goes to the heart of the responsibilities of the SBA to go out to the public, to market its programs and assist in the utilization of these fine programs by the public. I also highly commend you on section 6 of H.R. 2132 which mandates the development of programs to train and upgrade the skills of employees and potential employees of small businesses concerns. All of these proposals would be ideal for the U.S. Virgin Islands and would, I am certain, bring about results of which you and your committee would be justifiably proud.

I ask, however, Mr. Chairman, that the concerns I have raised about the operations of the SBA in the U.S. Virgin Islands and the possible solutions I have proposed be given your consideration. Again, I thank you, Mr. Chairman, for the opportunity to bring these concerns to you and your committee.

U.S. SMALL BUSINESS ADMINISTRATION, PUERTO RICO AND U.S. VIRGIN ISLANDS DISTRICT OFFICE—APPLICATIONS APPROVED

Year	Direct		Guaranty		Total	
	Number	Cost	Number	Cost	Number	Cost
Puerto Rico:						
1978	369	$10,844,014	689	$45,359,800	1,058	$56,203,814
1979	419	13,771,290	304	34,948,070	723	48,719,360
1980	279	10,320,500	523	43,803,576	802	54,124,076
1981	369	14,678,400	402	40,554,408	791	55,232,808
1982	162	7,196,500	183	20,482,010	345	27,678,510
1983	20	720,500	115	9,251,401	135	9,971,901
Total	1,638	57,531,204	2,216	194,399,265	3,854	251,930,469
Virgin Islands:						
1978	11	378,986	29	2,895,000	40	3,273,986
1979	9	492,000	12	1,817,500	21	2,309,500
1980	35	782,900	11	973,000	46	1,755,900
1981	48	1,441,000	24	3,156,000	72	4,597,000
1982	19	671,000	9	777,500	28	1,448,500
1983	6	135,000	3	702,000	9	837,000
Total	128	3,900,886	88	10,321,000	216	14,221,886

Mr. **MITCHELL**. Thank you.

Mr. **DE LUGO**. This is a good place to come.

Mr. **MITCHELL**. Well, we try. We are Avis. We're No. 2. We have to try harder.

Thank you very much Congressman de Lugo for your testimony. You say there is one staff person?

Mr. **DE LUGO**. Yes.

Mr. **MITCHELL**. Who's a professional. What about secretarial support?

Mr. **DE LUGO**. No secretarial support.

Mr. **MITCHELL**. What about clerk support?

Mr. **DE LUGO**. In all of the years that I've testified only two section 8(a) loans were approved by SBA in the U.S. Virgin Islands. Oh, I'm sorry, Mr. Chairman.

Mr. **MITCHELL**. No, I'm a little concerned——

Mr. **DE LUGO**. No, there is none. That's it.

Mr. **MITCHELL**. Just one person?

Mr. **DE LUGO**. He does everything.

Mr. **MITCHELL**. He types up his reports?

Mr. **DE LUGO**. Yes. He's a GS-12. He does everything.

Mr. **Mitchell**. All right. Now, on page 5 I wanted to ask you about your SBDA there. Two hundred and twenty-six applications for a total requested amount of $7.5 million.

If all of those applications were screened and they were found to be good applications with a good chance of success in business, how many of them would you be able to fund out of the SBDA?

Mr. **de Lugo**. Last year we were only able to grant 14 loans. All we were able to fund were 14 loans at——

Mr. **Mitchell**. At $250,000?

Mr. **de Lugo** [continuing]. At about $250,000.

Mr. **Mitchell**. Well, it seems to me that this should be an area in which SBA and your SBDA are working in tandem to try to meet some of that need.

Our next witness is Mr. Sanders, the Administrator for SBA and I'm sure he'll speak to this.

Certainly I think you have a very legitimate case. I'm very worried about the reductions in personnel within the Small Business Administration. We're at a point in time when the emphasis is on small business. Thanks to the small business community which came out and said: "Look, you pay us some attention."

Also, I see in the audience a representative from the Vietnam veterans' group. We heard from them last week, on the difficulties the Vietnam veterans have in getting any kind of loan. It's not the time right now to cut back on personnel.

Mr. **de Lugo**. Mr. Chairman, may I say that regarding Vietnam veterans that the proportion of our population that served in Vietnam was one of the highest in the Nation. That in the Virgin Islands the SBA has a community. I mean, it's just like that community which—like Congress had that type of community in mind when the law was created. There is this incredible need. There is no more room in the government service.

We say, "Go." You know, the administration says: "The private sector, the private sector." Well, if you don't have capital our people can't go into businesses. So they need the capital, and if you don't know that the programs exist, if there is no outreach you don't know that it's available. If there is no technical assistance to people who are going into business, small businesses, for the first time, then they are almost doomed to failure. You're making the odds against them.

So, you know, we all know what these are, but let's just do the job that's supposed to be done.

Mr. **Mitchell**. Thank you. I'm going to take the responsibility of sending a copy of your testimony to Mr. Sanders. He is here and he has heard your statement. But I'm certain that he would want to at least discuss this with you, with me and——

Mr. **de Lugo**. Fine.

Mr. **Mitchell** [continuing]. Try to take some followup measures. Thank you very much, Congressman.

Mr. **de Lugo**. Thank you.

Mr. **Mitchell**. And welcome home again.

Mr. **de Lugo**. Thank you. Good to be here.

Mr. **Mitchell**. Our next witness is Mr. Sanders, the Administrator for the Small Business Administration.

And I want to make a slight apology to you this morning, Mr. Sanders. We're in the period of working on authorization bills. There are 11 bills, approximately, pending before this subcommittee, which means we have been calling on you on a fairly regular basis. I know the demands are great on your time, but we have to have your input on all the authorization bills.

I would hope that within the next week or so we might conclude the hearings on authorization bills and you won't be worried with us for a while.

Thank you very much for being here. We're prepared to hear your testimony.

TESTIMONY OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. **Sanders**. Thank you, Mr. Chairman. Thanks for your consideration. There's no need to apologize. It goes with the territory, and I'm pleased that you extended the courtesy to listen to our position.

If there is no objection, I would like to submit the entire statement, which is some 40 pages, for the record and provide a brief summary for you and the rest of the committee.

Mr. **Mitchell**. Without objection, your entire statement is submitted for the record.

Mr. **Sanders**. Thank you.

I would first like to compliment you, Mr. Chairman, and the committee, for raising issues through the introduction of this legislation which deserve our attention and our energy. Certainly the areas of job training, export development and availability of equity capital are important for small businesses and for economic recovery.

While we may disagree over the specific legislative provisions and approaches, I know that we share the same goals in assuring a strong, small business sector in the American economy. I look forward to working with you, the committee, and your staff as you consider this legislation. I hope that we can draft legislative initiatives acceptable to us both which address some of these issues at least.

Let me state initially that SBA does not object to section 8 of H.R. 2132 which gives added direction to the direct loan program. I think there needs to be some clarification on how the funds are to be allocated within the States, specifically those States with more than one district office. That, however, is a resolvable issue.

Additionally, section 8, which slightly softens the criteria for EOL applicants, would not adversely affect the Agency's quality loan direction and so SBA would not oppose this language.

SBA has been encouraging the passage of section 6 of H.R. 403 for a number of years. That section provides that any person who kills an SBA employee while the employee is performing their duties would be guilty of a felony.

Mr. **Mitchell**. I don't know why that always evokes a smile and why people in the audience look at me. I'm a nonviolent individual, Mr. Sanders.

Mr. **Sanders**. There may be a longer history to this that you know about that I don't, Mr. Chairman.

We are therefore delighted, obviously, to see this provision included in your legislation.

We have been through a difficult economic period for small business. The good news of course is that the inflation rate has dropped, unemployment appears to have peaked, the interest rates are falling to a more affordable level for small concerns. The only remaining question is whether recovery will last for a long enough period of time to benefit the small business community.

In this regard, Mr. Chairman, I think we want to be extremely cautious about our spending levels so as not to refuel inflation and avoid economic recovery. As my statement indicates, I do have a problem with some of the spending levels in H.R. 2132. The spending levels in the bill would require an appropriation increase of 79 percent. The increases for direct loans and purchases for debentures and equity would be 291 percent above the current law.

I am concerned about the inflationary impact of Government spending increases of this magnitude. I do not feel that I can advocate an expansionary policy of the type laid out in this legislation. I will tell this committee, however, that as we move further into the economic recovery if it appears that our loan guarantee levels are insufficient to meet the demands that I will monitor this situation closely and request funding increases where we can do so without rekindling inflation.

Mr. Chairman, I believe we should all note that the system is beginning to provide additional credit sources of its own. Pursuant to the passage of banking deregulation, SBA has been contacted by numerous savings and loan associations which are eager to cooperate with SBA on loanmaking. It is estimated that available funds for commercial lending by savings and loans may amount to $7 to $20 billion for 1984. I think this indicates a healthy trend evolving in the private sector and I would like to see it continue.

As I have said before, I do not believe SBA 7(a) direct loan program is the best delivery vehicle for the 1980's. We are placing primary reliance on our preferred lender and certified lender programs in which banks and other lenders will do most of the processing and servicing of our guaranteed loans.

In this way, small business will receive faster and more efficient service and they will be also able to establish a track record with a bank, which is very important in the long-run viability. And it isn't done when financing comes directly from the Government.

We feel this to be a program for the 1980's, more efficient and more small business oriented than the old direct loan program.

I would like to comment specifically on our opposition to section 2 of H.R. 2132, which would authorize the SBA to buy stock in small business corporations. To the extent that equity capital is not available from small sources or on reasonable terms, our SBIC and MESBIC programs currently provide equity capital for small businesses. In those programs it is the private sector experts in small business finance who are making the decisions and providing management and other types of assistance that venture capitalists offer to their portfolio concerns.

We don't want to see the Government owning stock in private businesses, sitting on hundreds of boards of directors, making business decisions for small businesses. We certainly don't want to see them as general partners in partnerships. SBA's resources would not allow efficient delivery and monitoring of this kind of program.

Finally, I simply don't think the Government should own stock in private businesses. In my opinion that would be contrary to our traditions and our principles. If this were enacted I believe that in the long run the increase in Government control, regulation, and political interference would make us wish we'd never started down this road.

You have also asked for comment on House bills 620, 1593, 1929, and 2317. Although there are differences in these bills, each would reestablish SBA's old nonphysical disaster loan program for firms that have suffered economic injury as a result of currency fluctuations. Thus making them eligible for direct or guaranteed loans on that basis.

We oppose these four bills for several reasons, the strongest of which stems from the fact that we currently have a peso program which is working. Mr. Chairman, if you will permit me to use the old phrase, "If it ain't broke, why fix it?" Under the proposed legislation, the limit on the economic dislocation program is only $100,000, as opposed to the currently higher limit currently under the 7(a) program.

At the present time we are targeting those businesses which are most in need of financing, whereas the proposed legislation would expand the field of applicants competing for these funds by including businesses which, in SBA's judgment, already have access to available credit. As presented, these proposals would displace rather than supplement private capital.

Furthermore, if the peso legislation is enacted SBA will once again be managing a program which can be triggered by just about any economic dislocation which is temporary in nature. In the past, that's included such things as lack of snow in 14 States, the Olympic boycott, and the perception of the fuel shortage.

The four disaster bills[1] which were recently added to the hearing list present some problems in protecting the Government's and the taxpayer's interest in disaster loanmaking. I would hate to see the additional costs of these provisions passed on to the taxpayers at a time when we are attempting to reduce Government spending.

I would like to recommend an alternative to the provision which extends the current limit for farm disaster lending for 1 year. Our position for quite some time has been to exclude farm disaster lending from SBA altogether.

Mr. Chairman, we urge the permanent removal of agricultural lending from SBA's jurisdiction.

In conclusion, Mr. Chairman, let me state that although we may disagree over the merits of these bills before us today, I know that we do share the common concern for the health of small business and the common interest in enabling small business to make its full potential contribution to the economy. We at the Small Business Administration welcome the opportunity to work with you to achieve this goal.

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[1] The bills referred to are H.R. 592, 1375, 1779, and 2583.

This concludes my summary and I will be happy to accept your questions.

[Mr. Sanders' prepared statement with attachment follows:]

PREPARED STATEMENT OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

It is an honor to appear before you today to discuss the Small Business Administration's views on thirteen bills which are pending before your committee.

Let me begin, Mr. Chairman, by commending you for your initiative. While we may disagree as to the merits of particular proposals, I do believe that the chairman of this committee is sincerely committed to protecting the health and welfare of small business.

At an early date I hope to present to the Committee the Administration's small business legislative recommendations.

PROGRAM LEVELS

Section 1 of H.R. 2132 authorizes program levels for fiscal year 1984 and 1985. As the attached table indicates there are quite a few programs involved, so in the interest of time I shall summarize my remarks.

Many of the authorization levels exceed the Administration's fiscal year 1984 budget request, sometimes by substantial amounts. Our budget request was carefully worked out, considering the needs of our small business constituency both for the aid that we provide through our programs and for a sustainable economic recovery—one that will not overheat the economy and rekindle the fires of inflation. With all due respect, Mr. Chairman, I believe that some of the program levels authorized in this bill would, if replicated across other agencies of government, contribute to a resurgence of inflation. Small business, along with all of our economy, has been through a difficult period. But there was a purpose to it—to turn the economy around, to wring out inflation, and to position the economy for a moderate, sustainable recovery, for a return to prosperity and full employment without inflation.

SPENDING LEVELS

[In millions of dollars]

Program	Fiscal year 1984		Authorizations in H.R. 2132 for fiscal year—	
	Administration budget	Authorizations under current law	1984	1985
7(a) Direct loan	0	195	600	600
General business		125	405	405
Handicapped		15	43	43
EOL		45	138	138
Energy		10	14	14
7(a) Guaranteed loan	2,240	3,140	3,000	4,000
General business	1,910	2,708	2,670	3,564
Handicapped	5	5	5	6
EOL	60	60	60	80
Energy	15	17	15	20
503 plus debentures	250	350	250	330
Equity financing[1] (direct stock purchase)	NA	NA	100	100
SBIC:				
Direct purchase of debentures	41	35	100	100
Guarantee of debentures	160	160	250	330
Surety bond	1,080	1,400	1,600	1,600
7(b)(3) Nonphysical disaster	NA	NA	100	100
Pollution control	150	250	500	250
S&E	[2] 264.8	239	306.7	331.3
Procurement and technical assistance	10.103	12.526	12.526	12,526
Management assistance	30.554	32.138	32.138	32.138
International trade	.985	(1.214)	(1.214)	(1.214)
Advocacy	5.3			

SPENDING LEVELS—Continued

[In millions of dollars]

Program	Fiscal year 1984		Authorizations in H.R. 2132 for fiscal year—	
	Administration budget	Authorizations under current law	1984	1985
	(WBE119)	8	8	8
MSB COD	[3] 41.666	30.25	30.25	30.25
Data management	11.344	10.546	10.546	10.546
Training program[1] (grants)	NA	NA	24	24
International trade fair[1] SBDC (open)	NA	NA	6	6

[1] New program. Authorization required. [2] Includes 16.6 DLM. [3] Includes 15 BDE.

If we now plunge ahead with program levels like these, I fear that the government once again will create a new round of inflation, and the sacrifices of the past few years will have been wasted. The last thing this economy needs is a new binge of government spending. What small business needs most is a sustained recovery.

With that as an overall statement of SBA's position, I will comment on your increases in our existing programs first and then on the new initiatives.

DIRECT LOANS

The authorization level for direct loans would be raised from $195 million under current law (1984) to $600 million in each of 1984 and 1985. I have already given the committee my views on direct loans. As you know, Mr. Chairman, SBA is proposing that the program be zeroed out. This was not a snap decision on my part. Nor was it forced on me by OMB. After considerable reflection, I have concluded that the minusses considerably outweigh the pluses: The great majority of small businessmen do not want direct loans. They add to the deficit. They are a drain on SBA resources, which could be better utilized elsewhere. They are few in number and take a lot of time to process and service.

I am particularly concerned about the problems of slow processing and political interference that I have heard a lot about since coming to SBA. I am placing primary reliance on our Preferred Lender and Certified Lender programs, in which banks and other lenders will do most of the processing and servicing of our guaranteed loans. In this way small business will receive faster and more efficient service and they will also be able to establish a track record with a bank, which is very important to long run viability and isn't done when your financing comes directly from the government. I feel that this is a program for the 80's—more efficient and more small business-oriented than the old direct loan program.

In addition to the 7(a) guarantee program, we also have the 503, SBIC and MESBIC programs, so there are no major gaps in our array of finance and investment programs that need to be filled by direct loans.

OTHER AUTHORIZATION LEVELS

As indicated in Table 1, the bill would also make the following increases above current law in 1984:

MESBIC program: from $35 million to $100 million.
SBIC program: from $160 million to $250 million.
Surety bond guarantee program: from $1.4 billion to $1.6 billion.
Pollution control guarantee program: from $250 million to $500 million.
Salaries and expenses: from $239 million to $306.7 million.[1]

The authorization for appropriations in the bill would increase from $804 million to $1.4 billion. SBA's budget office estimates that the authorization necessary to support the program levels in the bill would actually be $1.5 billion, an increase above current law of 88 percent.[2] All direct loans, purchases of debentures and equity purchases would increase from $230 million to $900 million, an increase of 291 percent.[3] Salaries and expenses would increase by 28 percent.

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[1] Several authorizations are not consistent with SBA's organizational structure. For example, the Office of International Trade is no longer an integral part of the Management Assistance organization. We recommend that the authorizations be amended to reflect the current structure. We also suggest that the salaries and expenses authorizations, as a general rule, should be for program areas and not for a support function such as "program evaluation and data management."

[2] The authorization necessary to support the fiscal year 1985 program levels is $1,441,300,000 instead of $1,351,300,000.

I see no way to justify increases of this magnitude, Mr. Chairman. An appropriation increase of 88 percent is clearly inflationary. The increases measured any other way are inflationary. Small business does not need more inflation. Small business needs a sustained recovery, and this program is not the way to do it.

NEW EQUITY PURCHASE PROGRAM

Section 2 of the bill would authorize SBA to buy stock in small business corporations, to the extent that equity capital is not available from private sources on reasonable terms. As I indicated in my last appearance before the Committee, I believe that more equity capital is an important financing requirement for many small businesses. And I believe that our SBIC and MESBIC programs—which have provided $1.259 billion in equity for small businesses beginning fiscal year 1974 through fiscal year 1982—are the way to provide it. In those programs, it is private sector experts in small business finance who are making the decisions and providing the management and other types of assistance that venture capitalists offer to their portfolio concerns. Under the proposed program, it would be the government making these decisions and providing these services.

The SBIC/MESBIC program is providing equity capital to small business concerns on a continual basis. It is structured by the Congress in such a way as to insure that the decision to invest, or not to invest, in the equity capital of a small business concern is arrived at based upon sound economic and financial criteria in the marketplace in the most efficient manner.

Finally, SBA's resource base would not permit the efficient delivery and monitoring of equity capital investments since these investments, unlike debt-type financings, require considerably more intensive structuring, closing, monitoring activities.

Even more important, I believe, is the principle involved here. I simply don't think the government should own stock in private businesses. In my opinion that would be contrary to our traditions and our principles. There may be a few isolated examples to the contrary, where the government has owned stock. But they should be kept isolated and not encouraged to spread. In the long run the increase in government control, regulation and political interference would make us wish we had never started down this road. I am strongly opposed to this section.

NEW EMPLOYEE TRANING PROGRAM

Section 5 authorizes a new program permitting SBA to provide grants to small businesses to pay all or part of the costs to train or upgrade the skills of employees or potential employees. The training would last from one to six months and the small business would have to guarantee at least six months of employment to trainees.

Such a program would be duplicative of job training programs now conducted by the Department of Labor. While we share your interest and concern over the vital need for adequate training and retraining opportunities for American workers, we do not think it a good idea to duplicate the programs of these other agencies. I commend you for your interest, Mr. Chairman and I share your concern. But I honestly believe that we should not create a mini Labor Department at SBA.

INTERNATIONAL TRADE FAIRS

Section 6 of the bill would authorize SBA to provide financial assistance to public or private organizations to pay all or part of the cost to plan, organize, promote and conduct international trade fairs for the benefit of small business concerns having export potential. Since there are currently a large number of public and private organizations which sponsor such international trade fairs without Federal funding and in which small businesses can participate, SBA must oppose this section. In addition, SBA currently has the authority to make grants and loans to eligible small business to participate in such fairs. Under agreements with the Commerce and Agriculture Departments, the Agency has on a pilot basis paid participation costs for small businesses in selected trade fairs.

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[3] These figures include authorizations for new programs not yet discussed.

503 PROGRAM

Section 7 would insert new language into Section 503 of the Small Business Investment Act to the effect that SBA should not use the source or nature of the funds constituting the non-Federal financing portion of a project's cost, as a criterion to approve or reject a 503 guarantee.

The apparent intent of this provision is to permit funds for the senior lien position, private sector part of a project's financing to come from tax-exempt industrial revenue bonds, thus overturning current Federal policy. As we indicated last September in commenting upon similar legislation contained in the House-passed version of S. 1947, the practical effect of such a proposal would result in an SBA guarantee of the tax-exempt financing. In a typical transaction SBA is in a second lien position; the non-SBA portion has a first lien. In order to protect its second lien, SBA would be in effect guaranteeing repayment of a tax-exempt bond. For reasons well known to the Committee, it is a long-standing executive branch policy to oppose such "double-subsidy."

The position we enunciated last September remains unchanged. We do not oppose participation in projects where the source of financing other than the guaranteed debenture is from tax-exempt industrial revenue or development bonds. Rather, our opposition occurs when that financing is in a senior lien position to the SBA guaranteed debenture.

SBA is prepared to clarify its regulation and procedures to allow participation so long as the SBA guaranteed debenture is in at least a parity position. This will allow small business to have access to tax-exempt financing and SBA guaranteed debentures for the same project.

We have pending a proposed rule that would permit Certified Development Companies to finance projects with the proceeds of SBA guaranteed debentures and tax-exempt obligations, provided that the latter are on a parity level or subordinated to the repayment of the former.

In addition, Mr. Chairman, the language of Section 7 is so broad that the present regulatory limit of 50 percent on the federal share would be set aside, and in fact the SBA could not restrict the source of funds from any source including the underworld or otherwise criminally obtained funds.

The Agency obviously would strenuously oppose this change in its present form.

ALLOCATION OF DIRECT LOAN FUNDS

Section 8 of the bill would allocate 7(a) direct loan funds to regional offices of the basis of the "average number of unemployed individuals in the civilian labor force who reside in each State as compared to the total average number of unemployed individuals in the civilian labor force in all the States." Regional offices would allocate funds to district offices on the same basis. Energy and handicapped loans would be exempt from the formula allocation.

Mr. Chairman, I think the best way to deal with this issue is for the Committee to follow our advice and discontinue 7(a) direct loans in favor of our other loan programs. In that case no distribution formula would be needed.

However, on the very real theoretical question of how to distribute the funds, let me say that SBA would not object to Section 8. It would give added direction to the direct loan program.

There are three technical points I would like to make. I believe the bill to be unclear as to how funds would be allocated in states with more than one district office. The language in the bill would have "each regional office . . . allocate such funds to each district office within its jurisdiction at least quarterly, based solely upon the formula" which describes how funds are to be allocated among the states on the basis of their relative unemployment. The formula does not address how funds are to be allocated within a state. California, for example, has four District Offices, and I do not believe the bill adequately describes how funds would be allocated between these four offices.

Funds for the Vietnam and disabled veterans should be included in the programs exempt from this distribution formula. Further, in subsection 16(b), the phrase ". . . fiscal year quarter . . ." should be changed to read ". . . fiscal quarter . . ." for clarity.

REASONABLE ASSURANCE OF REPAYMENT

Section 7(a)(6) of the Small Business Act requires that all 7(a) loans shall be of such sound value or so secured as reasonably to assure repayment. An exception to this rule is provided in the case of loans to the handicapped, where the law provides that any reasonable doubt about ability to repay shall be resolved in favor of the applicant. Section 9 of the bill would apply this exception to small businesses that receive equal opportunity loans.

This change would soften slightly loan criteria for EOL type applicants separating them from general 7(a) criteria. This provision, responsibly administered, would not adversely affect the Agency's quality loan direction. SBA would not oppose this language.

H.R. 860

Mr. Chairman, H.R. 860 is almost identical to a bill (H.R. 6086) that the Committee reported last year. Since we have already testified on H.R. 6086, and as this statement is already long, I will not comment in detail on H.R. 860, but instead I refer you to our past comments on H.R. 6086 which are attached to my statement. I would reiterate that we remain strongly opposed to unwarranted and, in my opinion, unwise Congressional intrusion into Executive Branch decision-making that is represented in many sections of that bill.

NONPHYSICAL DISASTER LOAN AUTHORIZATIONS

Mr. Chairman, I have also been asked to give SBA's views on H.R. 620, H.R. 1593, H.R. 1929 and H.R. 2317. Although there are differences among the four bills, in general each of them would re-establish SBA's old nonphysical disaster loan program for firms that have suffered economic injury as the result of currency fluctuations. Such firms would be eligible for direct or guaranteed loans, with interest rates on the Federal share as low as 8 percent for firms unable to secure private sector credit. Businesses could borrow up to $100,000. In addition, all interest and principal payments would be deferred for one year.

In addition to the preceding, H.R. 1929 would be triggered by (1) extraordinary, severe and temporary natural conditions, and (2) other economic dislocations as determined by SBA. H.R. 2317 would require deferral of principal and interest for one year on direct or guaranteed loans previously made pursuant to other provisions of Section 7 of the Small Business Act to borrowers located in areas of economic dislocation caused by currency fluctuations, unless SBA determines that the borrower has not suffered substantial economic injury as a result of the economic dislocation.

The introduction of these bills was occasioned by the Mexican financial crisis. As a result of this crisis, thousands of small businesses from Texas to California have suffered serious economic reverses. On August 30 of last year I announced a positive, immediate response to this economic crisis to assist small businesses in the affected region. Mr. Chairman, you and the members of this committee are familiar with the peso program as a result of the two hearings that you held last year, so I shall not discuss our program in detail at this time.

Mr. Chairman, we are opposed to these four bills for several reasons. First, we believe that the peso program is working.

Since I announced the peso initiatives, we have received 2,476 inquiries, given out approximately 2,337 applications, received 642 completed applications for approximately $59 million, approved 314 applications for approximately $25 million, declined 301 applications for just under $29 million, and have 18 applications pending for just over $2 million. In addition, over 2,000 persons have been counselled.

Under the terms of the Economic Dislocation Loan Program in the proposed legislation, small businesses which in SBA's judgment do have credit available elsewhere, would nevertheless be eligible for an SBA loan. This would constitute an unnecessary intrusion into the private banking system, would dissipate Government resources and displace, rather than supplement private capital. It is also directly contrary to the current Economic Injury Loan Program.

Also, the loan limit under the proposed Economic Dislocation Loan Program is only $100,000 as opposed to a higher limit on the 7(a) program.

In addition, there are many other businesses located throughout the United States that were either manufacturing or exporting goods for shipment to Mexico that are suffering just as much as those located in the border states. Yet they would not be eligible for assistance under the Economic Dislocation Loan Program proposed in the four bills.

Mr. Chairman, the proposed legislation would reinstate a loan program which was specifically repealed in Public Law 97-35, the Budget Reconciliation Act of 1981. In a hearing before the Senate Small Business Committee on May 15, 1981, the Agency stated that the broad authority of the Non-physical Disaster Loan Program, created a major threat to the budget by suggesting that such assistance is an entitlement. Those loans dissipated SBA's budgetary authority for dealing with the more tangithe effects of physical disasters. We stated then, and we believe that we are proving today, that our regular business loan programs are sufficient to handle economic dislocation matters.

If the proposed legislation is enacted, the SBA will once again be hampered by a loan program that by its very nature, can be triggered by just about any economic dislocation which is temporary in nature. As you are aware, the Economic Dislocation Loan Program was originally authorized in 1977 following the last major devaluation of the Mexican peso. However, over the years, the program continued to grow until it was being triggered by such situations as lack of snow in 14 states, the perception of a fuel shortage, a Federal agency regulation impacting on commercial salmon fishermen, and the Olympic boycott. When the Non-physical Disaster Loan Program was repealed last year, there was sound rationale behind that decision.

If Congress passes this special legislation for the Mexican exchange convertibility crisis, how can it say no to others who will come forward later with similar requests? Indeed, the legislation virtually invites such requests. Every time there is economic reversal somewhere in the economy, Congress and SBA will be asked to provide loans at deeply subsidized rates for these so-called non-physical disasters. There will be no stopping the tide of requests. Subsidized loans are part true loan and part grant. We do not believe it to be the proper role of Government to provide interest subsidiary grants in these situations.

If the two pending bills are enacted, that sound decision to repeal the Non-physical Disaster Loan Program will be overturned and the Agency will once again find itself facing a deluge of requests for economic dislocation throughout the country, thus placing a drain on the resources of the disaster loan program.

CHANGES IN BUSINESS LOAN PROGRAM

In addition to the foregoing legislation, we were recently notified that the Committee wished to discuss five additional bills. They are, H.R. 403, H.R. 592, H.R. 1375, H.R. 1779, and H.R. 2583.

Section 2 of H.R. 403 would set the interest rate for SBA's share of any direct or immediate participation loan at not in excess of the current average market yield on outstanding marketable obligations of the United States, and adjusted to the nearest ⅛ of 1 percent. Presently an additional amount of up to 1 percent may be added to the interest rate of the loans if SBA determined to do so.

We oppose this change Mr. Chairman. We believe this provision would: (1) depart from the concept of a near market interest rate to be applied to SBA direct loans; (2) increase the subsidy; (3) result in a recurrence of unfair competition between direct SBA borrowers and those that use private lenders; and (4) rekindle the artificial demand for direct loans by bankable borrowers.

The bill would also permit the payment of interest only on 7(a) direct and guaranty loans where SBA, the borrower, and the lender agree. The term of the interest only payment would be on a sliding scale from 2 years on loans with an 8-year maturity to 4 years of interest only payments on loans of 15 years or more.

The Agency opposes this change as unnecessary for two reasons:

1. The Agency has flexibility under existing law to provide moratorium on payments where necessary. This is a more liberal authority than provided by this change.
2. The interest on relatively large loans constitutes the major portion of payments. This provision would increase the borrower's cost substantially while affording little benefit in reduced payments.

Finally, Mr. Chairman, we are in favor of Section 6 which provides that whoever kills any SBA employee while the employee is engaged in the performance of his/her duties would be guilty of a felony. We have been supportive of this provision for some years and have in the past sought such legislation. We feel this is long overdue.

CHANGES IN DISASTER LOAN PROGRAM

The next four bills under consideration, H.R. 592, H.R. 1375, H.R. 1779, and H.R. 2583 all relate to our disaster loan program. The main provisions of these bills would:

1. Reduce interest rates for homes and businesses who are unable to obtain credit elsewhere from 8 percent to 4 percent and reduce the rate for those able to obtain credit elsewhere to 8 percent.
2. Repeal the credit elsewhere test requirement.
3. Allow for a "forgiveness" feature for home loans.

4. Remove the 85 percent limitation on the amount of funding for disaster damage to businesses.

5. Provide $100 million for section 7(b)(3) assistance (non-physical damage).

6. Raise the limit on loans to repair damaged real property from $50,000 to $100,000.

7. Increase the amount allowable for replacing personal property from $10,000 to $20,000.

8. Extend the current limited exemption from farm disaster lending for one year.

Mr. Chairman, we oppose each of these provisions except the last one and we would like to present an alternative for that proposal.

Reductions of the interest rate below the cost of money to the government would have a substantial budgetary affect. Using an estimated 8-year maturity for disaster loans the proposed legislation would cost the government an additional $51,000 for every $1,000,000 in disaster loans for each additional 1 percent reduction in interest rates below the comparable cost of money to the government. If we were to, in fact, loan out the $440,000,000 that is the disaster program level for fiscal year 1983, the extra cost to the government for each additional 1 percent interest decrease would be more than $22,000,000.

The rates contained in the current legislation were enacted by Congress in August 1981 in response to significant and continuing economic problems. The Administration has consistently sought to curtail government spending as part of its overall program to deal with these problems. Our disaster programs, along with many other worthy programs, have had to live with cuts in order to help bring the budget under control. And as you well know, the need for budgetary restraint is still with us. We do not believe this is the proper time to increase the budget deficits by increasing the subsidy involved in the current disaster program. In addition, the current statutory formula gives us the needed flexibility to reflect changes in interest rates as they occur rather than have to require additional congressional action each time there is substantial movement in the financial markets.

A flat interest rate that was less than the cost of money to the Federal Government, together with the elimination of the credit elsewhere test, would once again have the Federal Government providing subsidized interest rates to individuals and businesses that did not need Federal aid in their recovery efforts. Considering the ever present need for budgetary constraints, we do not believe this a proper role for the Federal Government.

Similarly, reinstituting a forgiveness feature, removing the 85 percent limitation and providing funding for 7(b)(3) before fiscal year 1985 would overturn a very salutory policy established in the Budget Reconciliation Act of 1981 to slow the growth of Federal spending. Each of these items has a substantial dollar cost, either in the form of an outright gift, a subsidized interest rate, or a government fiscal outlay that most likely would add to the already enormous government borrowing requirements. In today's economic and fiscal climate, we cannot support these increases in government outlays as well as the attendant additional administrative costs and the possibility of other than complete payback to SBA by borrowers.

One of these proposals would increase the amount of money which any one disaster homeowner victim could borrow from $50,000 to $100,000. Another would increase the coverage of personal property damaged during a disaster from $10,000 to $20,000. We realize, Mr. Chairman, that the cost of replacing or rebuilding one's home or business today is far more expensive than it was, let's say, 10 years ago. We also realize that in certain parts of the country the cost of real estate has skyrocketed, however, experience with providing disaster assistance indicates the average disaster home loan for fiscal year 1982 was $10,374. The cost to the taxpayers to cover this increase would be substantial. If the Federal Government were to make even larger loans, then we are, in essence, encouraging Federal involvement and discouraging private sector involvement. SBA disaster loans are intended to be supplemental assistance.

The primary forms of protection should be, first of all, to guard against risk whenever possible—for example, by not locating in flood plains, and secondly, to protect against risk by purchasing insurance. An SBA disaster loan should be supplemental to insurance, not a substitute for it.

The last proposal, to extend our limited exemption from farm crop disaster loans does not go far enough. The bill would merely extend the exemption for one year. We certainly agree that SBA does not belong in the agricultural lending business. That is correctly, and should remain, the province of the Department of Agriculture. To accomplish this we have recently forwarded recommended legislation to the Speaker of the House that would exempt farm lending from all SBA programs. Mr.

Chairman, we heartily urge you to remove farm lending from the jurisdiction of SBA.

ENHANCING SBA'S ABILITY TO PROVIDE COSPONSORED TRAINING

Mr. Chairman, I would also like to comment on H.R. 2537 introduced by Congressman McDade. This is an Administration bill that would permit SBA to cooperate with profitmaking organizations in cosponsoring training programs for small businesses. Currently, SBA is limited to cosponsoring such programs with voluntary business, professional, educational and other nonprofit organizations and with other Federal and State agencies of government.

In our existing cosponsored training program, voluntary nonprofit organizations and institutions are persuaded to present small business management training to the small business community at a nominal fee and during hours that make it easy for the business community to attend.

Approximately 400,000 people attended training cosponsored by SBA in fiscal year 1982 through leveraging activities initiated by Management Assistance personnel in District Offices, working with Boards of Trade, Chambers of Commerce, and trade and professional associations. In support of this training SBA provides publications, films, assistance in reaching the community through use of franking privileges and other assistance. Direct outlay funds are not used in this development of training for the small business community.

This vital program of help to the small business community has been one of the most successful outreach programs of the Agency. Despite this, there is still a significant gap between the need for this training and the Agency's ability to fill that need.

For example:

1. Some SBA District Offices, who provide the training, cannot publicize their regularly scheduled prebusiness workshops. These workshops provide an eight-hour summary overview of the management skills and expertise needed to successfully manage a small business. These workshops are presently so oversubscribed that long waiting lists are maintained and any publicity regarding their availability would immediately overload the system.

2. Although the number of cosponsors of small business management training has increased from approximately 300 in 1973 to its present strength of 2,200, the ability to tap the public nonprofit sector for assistance in providing this training is diminishing. Many of SBA's current cosponsors report increasing demand on their time and staffs for more directly related activity and increasing costs that reduce voluntary commitment.

Under the proposed legislation, the kind of training described above would be extended to for profit organizations. A typical project might be a computer training program cosponsored by SBA and a computer firm. SBA would provide mailing lists, promotion and other outreach efforts to the target community. The computer company would provide the actual training. In this way vast private resources could be leveraged at negligible cost to the Government.

The capacity and motivation of the private sector to provide this assistance has great potential. For example:

1. Large oil companies depend on small businesses for distribution of their products; fuel dealers, gasoline stations, etc. Technically speaking, a major oil company is a collection of small businesses. An investment by the major company in this vital network of healthy small businesses directly tied to their profit margin, is a logical and good business investment, which we believe can be generated by SBA initiatives.

2. The banking community is an important financial resource both to the small business sector and the Small Business Administration. The amending of this Act to permit training by profitmaking organizations would join SBA and banks in a partnership to improve the knowledge and skills of small businesses, a community each serves.

3. Profit oriented businesses, particularly in the high technology sector, possess knowledge and expertise in areas not currently available through the voluntary, nonprofit organizations SBA is mandated to use. Utilization of the private sector for training of small business owners and potential small business owners would unlock large areas of knowledge for the small business community, not now available to them.

In requesting the authority to utilize for profit organizations to provide training for the small business community, these advantages are immediately apparent:

1. The number of organizations to be approached and utilized would increase enormously with the addition of the private sector. Large corporations, particularly those with a need to strengthen the small business sector (major oil companies, large manufacturing companies and others who depend on the distribution of their products through retail outlets or who buy from small business suppliers) should have an interest in participating with SBA in providing needed training for the small business sector.

2. A long overdue need for the use of television as a training mechanism for small business can be met also, with the cooperation of one or more major companies to underwrite the cost of such a series.

Permission to use this for profit sector will provide a basis for yearly increases in SBA's ability to serve the small business community.

No increase in Federal funds is either needed or contemplated by this measure. Rather, its enactment would permit SBA to use existing Federal dollars more effectively, by increasing the possibilities for leveraging private sector resources.

The Agency is currently reaching over 400,000 of the more than 13 million small businesses of the Nation with the transfer of knowledge of good business practices. The amendment of this section of the Small Business Act to permit the development of training programs with the private sector would more than triple training capacity at no increase in Government cost.

Mr. Chairman, this concludes my prepared remarks. I shall be happy to answer any questions you may have.

ATTACHMENT

H.R. 6086

Section 1—Authorization Levels

This section would alter several of the authorization levels for SBA's programs. It would raise the amount of loans authorized to be made to further the policies set forth in Section 2(c) of the Small Business Act, with particular emphasis on the preservation or establishment of small business concerns located in urban or rural areas with high proportions of unemployed or low-income individuals or owned by low-income individuals. It would also authorize $250,000,000 rather than $160,000,000 in Fiscal Years 1983 and 1984 in guarantees of debentures for the programs authorized by Title III of the Small Business Investment Act.

Position: SBA must oppose the SBIC authorization increase because the amended levels would exceed the Administration's credit budget and threatens the President's efforts to mitigate the adverse effects of Federal intervention on credit markets.

The rest of the increases are reflective of Administration policy and SBA endorses them.

Section 2—Program Levels in Guarantee Programs

Would require SBA to operate all of its guaranty programs—including guarantees of loans, debentures, payment of rentals, surety bonds and other types of financial assistance—in the full amounts provided by law, subject only to the availability of qualified applicants and limitations contained in appropriation acts.

Position: On first impression, this provision would seem to be perfectly reasonable. But, I believe that on further reflection it should be clear that enactment of this section would create a serious impediment to the sound management of the Federal Government.

Any organization needs to be able to adapt to changes in its environment. This is especially important for the Federal Government because of its role and size. The Government must have the flexibility to adjust program levels as a result of changes in economic conditions, needed changes in program mix, intra and interagency coordination and unforeseen events.

The Administration opposes this provision.

Section 3—Pollution Control

Would amend paragraph 1 of subsection 404(b) of the Small Business Investment Act by requiring that guarantees of contracts for pollution control facilities shall be issued when the property is acquired by the use of proceeds from industrial revenue bonds which provide the holders interest which is exempt from Federal income tax, and it prohibits SBA from withholding such a guarantee because the property is so acquired.

Position: We oppose enactment of this provision on the grounds that it allows a double subsidy—a matter which other Administration spokemen have addressed in testimony.

Section 4—Surety Bond

Prohibits SBA from establishing eligibility criteria for its surety bond guarantee program based on the amount of the bond to be guaranteed, or upon a percentage related to previously successfully completed contracts. It also requires SBA to evaluate each surety bond application on a case-by-case basis, and based thereon determine the appropriate percentage guarantee. This provision is also intended to overturn present SBA procedures relative to the surety bond guarantee program.

Position: We oppose this provision. We maintain that the use of the amount of bond and percentage related to successfully completed contracts are worthwhile eligibility criteria for the program within the context of current budgetary realities. If this bill is enacted and signed into law, we would have no choice but to stop using these criteria. We cannot favor what amounts to legislative management of programs—particularly when we feel programs are being administered in accordance with existing legislative mandate.

Section 6—Recordkeeping

Would require SBA to maintain a record of all applications for or inquiries about the availability of funding for financial assistance under the Small Business Act or Small Business Investment Act. The record is to be kept for one year from the date of application or inquiry.

Position: We fail to see the utility of retaining records about all people who make inquiry concerning the availability of SBA funding and are concerned about the propriety of collecting such information. We currently retain records of applications for financial assistance on an office-by-office basis for as long as those records are useful to us.

We believe that such a utility test, as defined in the Paperwork Reduction Act of 1980, is preferable to a legislative requirement that records be retained for at least one year. Therefore, we oppose this provision.

Section 7—Reprogramming

Requires SBA to notify the two Congressional Small Business Committees before reprogramming any program amounts authorized in appropriation acts or reports explanatory thereof, and before implementing any reorganization of the Agency.

Position: It is already SBA policy to provide such notifications. We do not believe that such a provision should be enacted into law.

Sections 10 and 11—Direct Loan Program

Sections 10 and 11 would create a new direct loan program targeted at labor surplus areas.

Position: Both of these sections contemplate funding that is inconsistent with the President's budget request. The Administration is opposed to the enactment of these sections.

Section 14—Commerce Business Daily

Amends Section 8(e) of the Small Business Act by providing that whenever a procuring agency is required by that section to publish a notice of procurement action, it must (1) allow 15 days from publication of the notice to the issuance of a solicitation for procurement and (2) a minimum bidding time of 30 days.

Position: The Administrator of OFPP recently testified in the Senate that the problem can be resolved by adherence to current regulations and made a commitment at that time to improve and give special emphasis to regulations covering publication of proposed procurement.

The Administration opposes the legislation pending a fair test of OFPP's determination to bring about proper implementation of the existing regulations.

Section 17—MESBICs

Permits MESBICs to use non-SBA Federal financing as part of their private capital to obtain SBA leverage funds.

Such financing would be that invested in or legally committed to be invested in an individual MESBIC prior to July 29, 1980.

Position: The rationale for the MESBIC program is to combine the public-sector funds of the SBA with private sector funds to finance minority enterprises. We feel this amendment is contrary to the rationale of public-private partnership.

Section 18—502 and 503 "Working Capital"

This section would permit the proceeds of SBA financial assistance to development companies to be used for working capital, in addition to the current permitted uses of land, capital improvements and machinery.

Position: This would completely alter the concept of the 502 and 503 programs, which assist local communities in their economic development efforts through fixed assets financing. Working capital is obtained either from the private sector or with the assistance of other SBA programs. We see no justification for abandoning this concept. In addition, adoption of this amendment would probably have a negative effect upon the financial soundness of the program. With "bricks and mortar" as collateral, the program is on a sound financial footing; this could be weakened if funds were also used for working capital.

Section 19—503 Debentures

Under current law, development company debentures may be used to provide funding for up to 50 percent of the cost of a project. The proposed amendment would permit the private sector half of the 503 project to be financed with tax-exempt industrial bonds for the senior lien position, thus overturning current Federal policy.

Position: The practical effect of this amendment would result in an SBA guarantee of the tax-exempt financing. In a typical transaction SBA is in a second lien position. The non-SBA portion has a first lien. In order to protect its second lien, SBA would be in effect guaranteeing repayment of a tax-exempt bond. There is a longstanding Executive Branch policy to oppose such "double-subsidy."

Section 20—8(a) Pilot Program

Extends through fiscal year 1983 SBA pilot program under Section 8(a) of the Small Business Act and the 8(a) Surety Bond Waiver program. In addition, it provides that the President designate either a civilian or a defense agency as the pilot agency.

Position: SBA supports extension of 8(a) pilot program and opposes extension of Surety Bond Waiver program.

Mr. MITCHELL. Thank you.

My brother, my eldest brother, Clarence Mitchell, directed the NAACP as their lobbyist in Washington for some 30 years. And his most frequent appearances were before a committee chaired by Sam Ervin. And it's very interesting that in a "Washington Post" article it was pointed out that the hearings were always totally interesting because everyone knew where the NAACP was coming from and everyone knew where Sam Ervin was coming from. And there was never any give. It was just a constant battle between the two. Yet, this "Post" article went on to conclude that just before Sam Ervin retired my brother praised him saying they had become friends though they are ideological enemies.

I wouldn't go quite that far. But it was almost predictable that you would oppose everything that we proposed. I suspected that.

I do have a couple of questions. You are very critical of our authorization increases. And I am equally critical of some of the analyses made by OMB which have been forced upon you. For example, we had to deal with authorization increases because we rejected the Office of Management and Budget's mandated improved debt collection of $175 million. That's just unrealistic. You're not going to make that.

We rejected the far-too-optimistic estimate of improvement in the default rate of more than $100 million. I don't know what the improvement rate was last year. Do you recall, Tom?

Mr. POWERS. It was very little.

Mr. MITCHELL. It was miniscule. And it's almost as if some magical wand comes down out of Heaven or someplace and says, OK, $100 million is reasonable.

Now, we're taking the position that both debt collection is overprojected and improvement in the default rate is overprojected. Is it now your position that we are right on both of these accounts?

Mr. **Sanders**. You're speaking of the projections that we submitted on——

Mr. **Mitchell**. Of the $175 million and the $100 million.

Mr. **Sanders**. Mr. Chairman, if we are deficient in those estimates I will strongly urge the corrections. As far as the default ratio goes, I think that we are going to come closer to achieving some reduction or seeing a reduction in the default ratio.

Mr. **Mitchell**. $100 million?

Mr. **Sanders**. Well, I'd rather not comment on whether I think those are optimistic or pessimistic. But I would rather submit to you that if we're failing in these goals that we come back to you quickly for some kind of correction in the overall budgetary figures.

Mr. **Mitchell**. See, that's the problem. And I'm glad that Congressman Smith, who is on appropriations, is here. I seriously doubt we're going to get any supplemental appropriations in this fiscal year. The Congress is still very, very conservative in its spending policies. We're going to be locked in with a budget. If there is going to be an error, I would rather err and provide SBA with extra funds because I just don't think that you're going to get any supplemental appropriation through. It's unrealistic.

Mr. **Sanders**. Well I know you approach this from a different point of view than OMB. Mr. Chairman, you know, in our private discussions with OMB sometimes we differ with them.

Mr. **Mitchell**. All right. I would hope so.

I won't go through the direct loan feud that we have. My position is irrevocable. We need direct loan money. I compliment you for what you're trying to do with the banks, but the banks are still simply unwilling to fund startups. There may be some slight improvement in the bank policy with regard to ongoing businesses.

I just don't see how in the world the Small Business Administration can carry out its mandate without direct loan money. And I am a diplomatic, kind, gentle, indeed lovable old man, but on this one I am unyielding. There is no flexibility. We need direct loan money, and we need it in the amount that I am proposing.

Mr. **Sanders**. Mr. Chairman, may I comment on that?

Mr. **Mitchell**. Sure.

Mr. **Sanders**. We are unalterably opposed on this matter. We feel that the direct loan money to begin with is the most inefficient use of our personnel. We certainly would need an increase in people to dispatch the kind of increase that you are talking about, which is more than four times the amount that we have dispersed in the last year.

When you talk about $600 million, even at that magnitude, I have several immediate problems in addition to the personnel that it needs. I know that we have discussed this before. But you speak about startups. I have said that I think that what we are addressing here is really a need for equity formation.

One of the worst things that can happen to a startup firm is to be saddled with a debt which requires a repayment on a regular monthly basis and an interest rate. That is the reason oftentimes for failure. The unanticipated track record that new business is going to discover.

He is going to discover that he is in the wrong site, or that he has not anticipated the level of business that is going to come in. He gets into a cash problem. I am simply saying that that is not the way to address a lot of the needs, financial needs, of a startup firm.

Then we move to the problem of what do we do about the equity formation. I want to say that I think that insofar as the minority community is concerned, that the 8(a) program expanded, the 8(a) program where we use this expanded technique of taking the graduate out of there and giving him additional help in procurement with business development expense, and these kinds of things, is the most viable concept that we have right now of helping development of minority firms.

I know that I am diverging a little bit. But I want to make a complete statement about the direct loans. I think that the great threat to this agency is from the mainstream of the nonminority business community.

If they perceive that we are expanding this agency into some kind of special privileged program for various groups, I think that they are going to legislate to bring the whole agency down, and that is my major concern.

The SBA and the Federal Government is not the small business constituency. Most small businessmen have survived very well without the Government. We want to expand these opportunities in certain areas. But we have to be careful that we do not kill the golden goose. That is my concern.

Mr. **Mitchell**. I do not want to tautologize this point. I want to hear from Congressman Smith, and I have one other question. But I am going to take a look-see at those firms that were "graduated." To the best of my recollection, at least half of them started with direct loan money, and they grew to the point where you said that they were so successful that they had to get out. That is the need.

The other point that I wanted to make was with reference to the attitude and the fear of this larger community. That somehow or other if we do the right thing, then they will destroy your whole program. I am putting it on a very personal basis.

We would never have had civil rights legislation passed by the Congress if we had listened to the larger community. It was the right thing to do. We did incur the wrath of certain segments of the larger community, but the Congress determined that it was the right thing to do. And it stuck to its guns.

I just do not want to be swayed. I do not want Government policy run whichever way that the wind happens to be blowing at that point in history in our Nation.

Mr. **Sanders**. I support your dedication to principle, Mr. Chairman, and I feel that I share in that. I certainly share your concern in civil rights. I also share in the concern for development of minority firms. My only admonition is that if this egg gets too large, and the taxpayer perceives that we are going in the opposite direction of building up agencies again, and increasing the deficit, they are going to say what good is that for the small business community, all you are doing is increasing our taxes.

Mr. MITCHELL. Well, you and I are in firm disagreement, and will be until the nether regions of the lower world probably freeze over on this issue.

Mr. Smith.

Mr. SMITH of Iowa. Thank you, Mr. Chairman. Welcome, Mr. Administrator.

I noticed your comments about disaster loans, but on an overall basis, you are for disaster loan authority, are you or are you not?

Mr. SANDERS. Well, I think that we can live with the physical disasters that we have. I am not anxious to see it expanded, Congressman Smith. I think that we have been sorely tested to respond to the kinds of disasters that we have with the people that we have, and facilities that we have.

I am a little troubled about the business, the failure really of the Federal flood insurance. And I think that one of the reasons that it may have failed largely is because there are so many ways to get around it, and get Government assistance in spite of it, and still not take any flood insurance out.

Mr. SMITH of Iowa. Well, the flood insurance is a special problem. We rely upon cities and towns and so forth to take necessary steps to make flood insurance available. Sometimes they do not do it. Then there is a flood. The small businessman—it is not his fault—but he gets flooded out, and we cannot penalize him.

On an overall basis, I would just like to point out that it was long before you came into Government service, but they would have a disaster and Congress would meet over here, and pass a different law than we ever had before. About 10 different agencies would run out to the disaster and fall all over one another deciding on whose jurisdiction it was.

We finally said well, look, the Small Business Administration is in the business of making loans, so we will make them the lead agency, and send them out there. We will have a loan program, and not have this kind of program that we used to have where we automatically would give everybody $5,000, and some things like that.

I think that it really worked because the net cost of the interest subsidy was less than $1 per person for the people of the United States. For that amount, they received an insurance policy. You could not even write one letter for that amount of money.

The insurance policy said if I do suffer one of those disasters, I will be able to borrow some money, so that I can finance my way out of this thing. You do not get something for nothing, but I will be able to borrow some money.

But then what happened was that arbitrarily somebody said well, we do not want to be bothered with farmers. They are small businessmen, but we do not want to be bothered with them, and so they just automatically or arbitrarily excluded them.

Now what we have done in the existing law is to say if the Farmers Home Administration offers agricultural producers the same service that SBA would offer to any small businessman, let FmHA do it.

How many disaster loans have you made to farmers on account of disasters occurring since we passed the current law as part of reconciliation 2 years ago?

Mr. **Sanders**. I do not have the figure offhand.

Mr. **Smith** of Iowa. It is about 20, is it not?

Mr. **Sanders**. Very few.

Mr. **Smith** of Iowa. Yes.

Mr. **Sanders**. Very few, that is correct.

Mr. **Smith** of Iowa. So Farmers Home has done it only because if they did not do it, SBA would do it. Now I noticed your comment a little bit ago that if it is not broken, do not fix it.

Does that not apply here?

Mr. **Sanders**. I am not trying to change what we are doing now, sir. I am concerned about these proposals for the nonphysical disaster loan bills that are in here.

Mr. **Smith** of Iowa. But you said that you do not want the current law provision extended. And my point is with the provision in there, Farmers Home is making available the same program for small businesses that happen to be in the farm production business that other small businesses had. So it is working by having it in there. You do not have to do it, they do it.

If that is what you want, then we ought to leave it in there, so you will not have the business of making all of these loans.

Mr. **Sanders**. If some of these bills were to pass, we would be in it immediately, because they are going to lower the interest rate far below Farmers Home Administration, and then they would come to us.

Mr. **Smith** of Iowa. I know that when we put this in there, Farmers Home would adjust it to meet the same conditions that SBA had. That is the point.

Mr. **Sanders**. I might take a different look at that provision, sir, if this would automatically reduce the interest rate of Farmers Home Administration.

Mr. **Smith** of Iowa. What happens is that they immediately do it. And we did it once in an appropriations bill rider. But they immediately adjust to it. So what I am saying is that with this current provision you are out of the farm business. If we take the provision out, you are going to be right in to the farm loan business. Now is that what you want?

Mr. **Sanders**. Mr. Chairman, I certainly do not want to be into it. I think that Farmers Home Administration is doing a better job of it. I know that if we were to put it back in there, that we would have an enormous challenge. We have to live with these loans a long time.

You mentioned $1 per person. I suppose that that is $1 a year.

Mr. **Smith** of Iowa. A dollar a year.

Mr. **Sanders**. About $240 million a year. I know that the portfolio of farm loans is probably over $1 billion.

Mr. **Smith** of Iowa. But if you figure out the difference in interest rate between what they are going to pay and what the Government pays for money, it would only cost about $1 a year. It is not just farmers, it is small business in Mr. McDade's district that had a bad disaster up there.

It costs almost nothing to let those people have a way to finance themselves out of a disaster. That is all we are doing, letting them finance their way out. It is the cheapest insurance policy that anybody ever had.

Mr. **Sanders**. We would like to see that current provision extended.

Mr. **Smith** of Iowa. Oh, I thought that you said that you did not want it extended.

Mr. **Sanders**. No, we would like the temporary provision taken out of it. We would like it permanent.

Mr. **Powers**. You would prefer ending any eligibility for farmers for any program rather than merely having an extension of the existing law.

Mr. **Smith** of Iowa. See, that's a big difference, to extend the existing law, well, then Farmers Home has to meet the requirements that you have. If you take it clear out, then there is no pressure on Farmers Home to do anything.

Mr. **Sanders**. Well, we have a bill, as you know, Congressman, to take that existing exemption. It expires this year, and we want to make it a permanent exemption. The way that it is working now.

Mr. **Smith** of Iowa. Well, I think there is a big difference in how you do it.

I think I have taken my time now, Mr. Chairman.

Mr. **Mitchell**. Mr. McDade.

Mr. **McDade**. Thank you, Mr. Chairman.

Let me just say parenthetically off the record, you know, we want to work with you because we think we have a pretty darn good program.

I understand the Administrator wants to——

Mr. **Sanders**. We'll look at that.

Mr. **McDade**. Let me just say to you, Mr. Administrator, welcome. I am grateful for the way that you are administering the agency. We think you are responsive, and we are happy with you, and the work that you are doing.

At this time of year, as our colleagues can tell you, we have a zillion things going on in terms of a lot of committee meetings. I have been at another committee meeting since 9 o'clock, and unfortunately, I have to leave for one now, over on the appropriations side.

I would, therefore, with Mr. Chairman's permission, submit for the record, some questions for you to answer, if you will, Mr. Administrator.

Are we targeting toward a May 15 date for markup?

Mr. **Mitchell**. Yes, we are.

Mr. **McDade**. Well, we are going to have to do something and this is for us to decide about House schedule, because this is a very issue-oriented problem. We have a lot of decisions to make here.

We need your guidance. The committee needs to be fully informed; and we will be fully informed. The fact that we are not able to all attend the hearing doesn't mean a lack of interest; it means that we have got other commitments, and none of us has developed yet the ability of being in two places at one time.

So, perhaps we can have more consultation here, as we try to go through this process. I think we had better because we are going to have to be called upon to make some very difficult decisions, and very substantive decisions, if we are going to target for May 15.

Excuse me, did——

Mr. MITCHELL. No; I was just going to say that I am unaware of any situation since I have been chairman of the committee where there has not been consultation.

Mr. McDADE. Oh, I don't mean to suggest, Mr. Chairman, that there isn't, but I think we had better get more deeply involved in it, because I am now running every day with two subcommittees meeting at 9:30 and the Appropriations besides; and you probably have three, I suppose.

Mr. MITCHELL. I have Banking.

Mr. McDADE. Everybody else has got them, so I think that if we could focus a little bit; if we are targeting for May 15—is that when it is going to be?

Mr. MITCHELL. Yes.

Mr. McDADE. I think we had better. We always have consultation.

Mr. MITCHELL. Sure we have.

Mr. McDADE. I think we had just better do it more deeply, to make sure that we all as members are fully apprised, for example, Neal has some suggestions on the interest thing that he and I worked together, I don't know how many years, but they are of interest to me, and I am sure that they are not totally incompatible with what the Administrator wants to do.

But they are very important. I would like us to try to find a way after the Administrator testifies or after we get through the witnesses or whatever you want to do, where we can find, get all the members present, and so we can discuss it a little more.

Mr. MITCHELL. As chairman, I remain committed to the same principles that I brought with me when I took over the chair.

I have no problem meeting from 7 to 10 at night. I have no problem coming here 6 to 8 in the morning.

Mr. McDADE. Then, wonderful. We have a nonproblem.

Mr. MITCHELL. That is right, and I don't——

Mr. McDADE. Except we are making that——

Mr. MITCHELL. I just don't see that this is an issue, but nevertheless you have raised it and I am responding by saying, maximum cooperation in that area.

Mr. McDADE. Mr. Chairman, you have always done that. That is all I am saying to you.

Mr. MITCHELL. OK.

Mr. McDADE. I have got a hearing on the Powder River Basin going on, and a committee which demands my attention. I have got to go.

So, with that, I am grateful to you. I will submit to you, Mr. Administrator, these questions, and I will appreciate them answered in the record; and I regret very much—and I hope my colleagues will understand that it is not a lack of interest. Mr. Administrator, I want you to understand that, and have it underlined. I do have to leave the committee room. I wish I was here from the beginning, but I couldn't be here; I was at other meetings, but we want to work together as we have, and fashion a bill that will be acceptable, and we will work toward that end.

Mr. SANDERS. I understand.

Thank you.

Mr. McDADE. Thank you.

Mr. **Sanders**. I appreciate that.

Mr. **Mitchell**. Mr. Daub.

Mr. **Daub**. Mr. Chairman, I would not misunderstand my ranking minority member's comments. Indeed, we always have received maximum and full cooperation from you, and I think his point was that the intensity of some of these major changes. Hopefully, we could get some of the other colleagues and engage with yourself, and with Mr. Smith who is always a faithful attender, and I think we need to broaden their horizons as well, and I know that he and I talked about this, and that may have been the point. I don't want to put words in his mouth, but, indeed, if we could get some of our other colleagues to look at some of these very important changes that we on this side don't find too objectionable, as a matter of fact, in large part, we might really be able to strike a lot of progress with the Administrator's cooperation for a small business future in the next couple of years.

So, I think that is what I want to see you endeavor to do, and with our full support, let me say, to bring some of our other colleagues on these things and inform them about why they are important, and make sure we have their understanding on it, and I think that is where I would be headed.

Anything that I can——

Mr. **Mitchell**. Well, again, Mr. Daub, I am willing to meet at any time. I have sacrificed my participation in the markup of the housing bill, because I think this is important.

I am not omnipotent. I can't go and bring members from your side and my side——

Mr. **Daub**. Indeed.

Mr. **Mitchell** [continuing]. And put them in handcuffs and bring them here.

My position remains as it has always been: We will attempt to meet as often as is necessary for as long as is necessary to achieve——

Mr. **Daub**. I want to recognize that. My point is to say, that if we can do that, to bring some of our colleagues, and I will work on my colleagues, because I find these very important, and I appreciate the hearings that we are undertaking.

I think it is better, Mr. Chairman, for me to say I have no questions.

The questions that Mr. McDade and I worked on are the ones that he has submitted for the record. We need your views on these 10 questions so that we may circulate them to the committee, and it would be better, in fact, since the calendar is so busy right now with authorizing and appropriating subcommittee meetings, if you could put that in writing.

Mr. Chairman, could I ask that these answers be submitted to the Chair, and indeed then circulated to all the members?

Mr. **Mitchell**. Of course, that will be done. I would appreciate a prompt response because we are shooting for that May 15 date.

Mr. **Daub**. With that I have no questions. These are our questions that we have put together to be sure that we have explanations from the Administrator's point of view.

[Mr. McDade's questions and SBA's responses follow:]

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C.

Hon. PARREN J. MITCHELL,
Chairman, Small Business Committee, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I have enclosed answers to the questions submitted to Mr. Sanders by Congressman McDade in the April 27, hearing on authorization levels and small business job creation legislation.

If I can be of further assistance to you or your staff, please do not hesitate to call.

Sincerely,

ROBERT W. SANTY,
Director, Office of Congressional and Legislative Affairs.

Enclosures.

SBA RESPONSES TO QUESTIONS OF CONGRESSMAN McDADE

Question 1. On page 1 of your testimony, you mention the Administration's small business legislative proposal. Would you please describe its contents.

Answer. I would be pleased to describe our proposals as soon as they are cleared within the Administration under the Circular A-19 clearance process.

Question 2. How can we act on your proposal when we must mark out a bill by May 15?

Answer. We hope to have our proposals transmitted to Congress in time for consideration prior to May 15.

Question 3. On page 3 of your testimony you state that the SBA's budget was carefully thought out. However, out of 11 areas, 7 are budgeted less than when you submitted your best estimate of SBA's needs to the Administration.

Answer. The Administrative budget process is based upon discussions between SBA and OMB which must take into consideration both agency views and overall perspectives on fiscal policy, deficit reduction and resource allocation.

Question 4. I would like your opinion on several areas of the Equity Purchase Section of these bills, including:

A. Why won't the SBIC program work to fill the need?
B. How much stock in any business would be purchased?
C. What business lines would be targeted out of 13 million small businesses?
D. Who would vote the stock? You? Regional?
E. How far would SBA go to protect its interests?
F. Should SBA intervene with a business' banks, IRS, procuring agencies?
G. To whom would the SBA owe the fiduciary duty of a stockholder: the corporation, SBA who invested the money, the taxpayers?

Answer. As our testimony indicated, we believe that the SBIC and MESBIC programs are the proper way for the Government to provide more equity to small business. These programs are structured in such a way as to insure that the decision to invest, or not to invest, in the equity capital of a small business concern is arrived at based upon sound economic and financial criteria in the marketplace in the most efficient manner.

The answers to parts B-G would be determined at the time that regulations were developed.

Questions 5 and 6. In the area of job training, do you believe this is an important role for small business? How can small businesses help in the job-training effort?

Answer. Yes, small business does have an important role to play in job training. This role can best be played either with the assistance of programs already in existence at the Department of Labor or through small businesses acting independently.

Question 7. What programs at the Department of Labor are duplicative of the program that has been proposed?

Answer. The Job Training Partnership Act, Public Law. 97-300, provides reimbursement of up to 50 percent of wages paid to individuals during a training period (up to a predetermined amount of money) for on-the-job training. Reimbursement goes to businesses which train the individuals. The JTPA, scheduled to go into effect on October 1, 1983, will replace the CETA program which expires on September 30.

Funds for the OJT portion of the Act will be distributed on the basis of a plan drawn up by a Private Industry Council and submitted to the Governor of the State for approval. Businesses will then be reimbursed by the Council. Membership of the Private Industry Council will be made up of at least 51 percent local businessmen with substantial representation to be given to small businesses. Language in this section of the Act supports training for small concerns and gives recognition to the fact that most jobs in the private sector come from small businesses.

Title 3 of the JTPA has been funded for 1983. Title 3 provides money for retaining of dislocated workers and unemployed individuals who have been out of work for 15 weeks or more. Workers displaced by plant closings can begin retraining immediately without regard to their 15 week limit. Funds are disbursed to the Governors of the various states based on National unemployment figures.

Question 8. Trade Fair participation in foreign countries and with foreign buyers is very important. How much has SBA expended for small business participation in such trade fairs?

Answer. International Trade Fairs Total funds spent and planned from Nov. 1982—Oct. 1983: $27,440 (includes $3,000 from Region I) Shows; Sial—Paris—2 fish firms $4,000; Electronic—Munich—4 firms $3,040; U.S. Seafood—London—6 firms $3,200; Food exhibition—Atlanta—4 firms $5,200; Anuga—Colon—3 food processing firms, 3 fisheries $12,000; (Possibly 5 firms in Brazil in Sept. 1983—$2,500.)

Question 9. The 503 programs are very effective. Your opposition to the use of tax-free bonds with 503 financing assumes that the government is always so severely under-secured that SBA must step in. What leads you to that conclusion?

Answer. The majority of 503 projects do not fall within the assumption. There will be some, but that would be the exception, not the rule. As a rule, we believe our projects are adequately secured.

Question 10. In what stage are your "clarifying regulations" that you quote on page 11 of your testimony?

Answer. The regulations were published in the Federal Register for comment in February.

Mr. MITCHELL. Thank you Mr. Sanders for being here.

Someday we are going to be in tandem.

Thank you for being here.

Mr. SANDERS. Mr. Chairman, thank you for asking me, and I hope that Congressman Smith and I communicated clearly. As you know, we prefer not to see this Agency involved in nonphysical disaster loans for causes that are submitted or put here by these bills.

We certainly would prefer to continue the existing exemption in legislation indefinitely. We certainly don't want to be put back.

Mr. SMITH of Iowa. Let me take just one minute, and point out the difference.

What you are proposing is to exempt SBA from being in any farm-lending program.

What we have said in the legislation is that we would extend existing law; that SBA is exempt from making disaster loans to farmers so long as Farmers Home Administration provides farmers the same kind of treatment that SBA provides to other small businessmen. That is a big difference.

Mr. SANDERS. I agree, but you know what I fear—I see in here some drastic reductions in artificial interest rates, that I think might not be followed by Farmers Home Administration, and we would automatically be the first door to approach.

Mr. SMITH of Iowa. Well, we have found that they do follow when they have to, and if we didn't have it written this way, they wouldn't do it.

Mr. SANDERS. Well, you have been here a long time, Congressman, and I appreciate that.

Mr. SMITH of Iowa. I try not to remind my constituents how long I have been here.

[Laughter.]

Mr. SANDERS. Well, sir, I think I even hear the identifiable plunk of spades out there digging and getting ready for tree-planting for the spring; I hope we get them all in.

Mr. DAUB. Will the gentleman yield?

Mr. Smith, the record may show that there are some of us younger in the Congress who respect, admire, and look up to age, height, gray hair, and wisdom.

Mr. SMITH of Iowa. Thank you very much.

[Laughter.]

Mr. SMITH of Iowa. I'll not let you change that quote in the record, either.

Mr. MITCHELL. Thank you, Mr. Sanders.

At this juncture, I would like the record to reflect the fact that the Chair distributed to every single member of this committee specific dates for all hearings, what the subject matter was, the nature of the bills pending in the hearings, and contemplated dates for markup sessions both in the subcommittee and in full committee.

Again, I will announce a May 3 hearing; a May 4 subcommittee markup, and around the 10th, a full committee markup.

The information has been sent to every single member and I want the record to reflect that.

Thank you for being here.

Mr. SANDERS. Thank you.

Mr. MITCHELL. Our next panel will consist of Mr. Robert Millikin, the vice president of congressional relations for the National Association of Development Companies; Mr. Frank Brooks Robinson, president of the Regional Industrial Development Corp. of Southwest Pennsylvania, Pittsburgh; Mr. John Weiss, senior vice president, Baltimore Economic Development Corp. in Baltimore. Is our other witness here?

Mr. Robinson? Come right up. I have a few observations I would like to make.

The first is that your mikes are recording directly into our recorder system. Therefore, if at any time you want to make a statement make sure that you are speaking into the mike. You will have to pass your mikes around a little bit.

The second observation I would like to make is that we have received testimony from all of you witnesses and the entire testimony will be submitted for the record. So, therefore, if you are so disposed, you can simply highlight the major points that you want to make in your testimony, rather than presenting it in its entirety.

Thank you, gentlemen, for taking time from business schedules to be here with us. Mr. Millikin?

PANEL CONSISTING OF ROBERT MILLIKIN, JOHN C. WEISS III, AND FRANK BROOKS ROBINSON

TESTIMONY OF ROBERT MILLIKIN, VICE PRESIDENT, CONGRESSIONAL RELATIONS, NATIONAL ASSOCIATION OF CERTIFIED DEVELOPMENT COMPANIES

Mr. MILLIKIN. Thank you, Mr. Chairman. My name is Bob Millikin. I am with the Columbus Countywide Development Corp. in Columbus, a title 3 certified development company. I am also here in my capacity as vice president of congressional relations for NADCO.

With your permission, I would like to submit my written testimony.

Mr. MITCHELL. Without objection, the entire testimony is submitted for the record.

Mr. MILLIKIN. Thank you, Mr. Chairman. As a format, I would like to take just a few moments to tell you a little bit about NADCO; a little bit about our certified development company in Columbus, Ohio; and third, our position on H.R. 2132 and H.R. 860, particularly on two sections of each of those bills; and lastly, introduce other members who will testify here today.

The National Association of Certified Development Companies is an organization formed last year comprised of some 128 members across the country. I believe there are some 378 certified development companies today. We represent about a third of them. However, our membership accounts for about 80 percent of the loan volume that is achieved, or has been achieved to date. I have enclosed in my written testimony for your information copies of our program of our recent national meeting which may be of interest to you, the subjects that we took up.

With respect to our local certified development company, I might tell you a little bit about Columbus Countywide Development Corp., which was certified about 14 months ago. We have become one of the more active CDC's in the country.

In the past 14 months we have approved I believe 60-some-odd projects totaling about $25 million, generating approximately 1,400 new jobs and affecting another 2,600 current employees.

I would like to say that I believe that is because the program is working. I will confess at the outset that our county and our State has high unemployment. There are many counties in our State which are up in the high teens in unemployment, some in the low 20's even.

Our county just dropped, I believe, to single-digit unemployment. I would like to hope that some of that is due to our work in the past year, at least a little portion of it.

But I would like also to say that we think all the elements of the program are working; that is the way that the membership—the composition of the membership of certified development companies is supposed to be working, the participation of the banking community, the participation of the political and Government sector. As well, I would like to say that SBA has done a very good job in our district.

Frank Ray, the district director; Louis Stevenson, the district counsel; and Jennifer Flocken, whom we consider one of the best SBA loan officers, have done a fantastic job. So everything is working with the program and I would like to report that to you here.

We have not stayed just in our own little nest in Columbus, Ohio. We have shared our successes with other CDC's in our State. We have organized the Ohio Association of Certified Development Companies of which we have 20 members out of the 22 CDC's in our State and we have had two Statewide conferences. So far the SBA has been kind enough to send out a number of delegates from their district and central offices to address us and they have been most informative.

So with that part I let you know that the program is very much alive and well and working, not only in Franklin County, Ohio but other sections of Ohio as well.

Second, with respect to NADCO's position on specific elements of H.R. 2132 and H.R. 860, I will just summarize that we are in favor of the higher funding levels; we also support section 7 of H.R. 2132, which supports the subordination of 503 debentures to tax exempt obligations. On H.R. 860, we have not taken a position on section 17 with respect to combining working capital in 503 loans. On section 18, again we support the subordination of 503 debentures.

With respect to the funding level, I believe at this time, based on the information I was able to get from the SBA, this fiscal year the agency approved about $96 million or thereabouts in debentures thus far during the first 5-plus months of the fiscal year. Keeping in mind that February, I believe, was a much higher month than the previous months which would have been averaging about $8 to $10 million a month.

We are now up to $23 million I believe it was. So we expect, not only with the advent of many additional certified loan companies but also with the advent of more active ones, that this funding need will be on an upswing curve the rest of this fiscal year.

Second, and one of our major points which will be expounded upon by the other witnesses, is if we are able to achieve some of these technical issue changes, and particularly the one involving the subordination of H.R. 503 to tax exempt, I think you will see a great increase in the activity. Some people have forecasted that to be in the neighborhood of about $100 million per year. So we believe, again, that you will see a great increase in the need for the funding levels of H.R. 503.

One comment about the program itself: I mentioned it is alive and working. The aspect of removing a live section of this underwriting from SBA—and that is the part that we feel is really starting to work with the increased sophistication of the CDC's, this review function is being done outside of the Federal Government. Ultimately our review of the credit worthiness of the borrower will save SBA time. I noticed in some testimony before one of your subcommittees last year that question was raised. I don't know if the SBA ever answered what it costs to administer this program.

I have to assume it is very efficient because the time of the local counsel and the loan officer—those are the two people primarily involved on a district office basis—for the loan volume amount has to be very minimal comparatively speaking.

So with respect to the tax exempts, I would just like to make a couple of comments in that area. Our general position has been expressed by our entire national association which is very supportive of this issue. There are various States, including Ohio, Maryland, and New York which John Weiss will talk about. Maryland has an umbrella bonding authority. Ohio has what we call the 313 program which is a program whereby the State takes its liquor profits, $15 million per year, and puts them in a pool and uses that pool to repay the principal and interest on up to $150 million of bonds.

In our State we can't use paybacks from bond lending to pay back the bonds themselves. So we have to take another fund to pay back the principal and interest. But when those moneys are lent out to small businesses across the State, the proceeds, the paybacks, then go back into the lending pool.

Now, we have heretofore been prohibited from utilizing the combination of that pool and H.R. 503. The permissiveness of this legislation will now enable us to leverage that State fund which can be up to $150 million a year, depending on what the interest rates are.

Since the 15 is the ceiling, the interest rates are higher, we can't do $150 million, we might do $80 million. But if the rates are lower we can go up toward $150 million. It is a tremendous leveraging factor within these States that have job authorities like Ohio. I want to make that point.

I believe that is the main things I wanted to summarize. I will be brief to give the other members a chance to testify here. I would like to introduce the other members of our panel.

[Mr. Millikin's prepared statement with attachments follows:]

PREPARED STATEMENT OF ROBERT MILLIKIN, VICE PRESIDENT, CONGRESSIONAL RELATIONS, NATIONAL ASSOCIATION OF CERTIFIED DEVELOPMENT COMPANIES

I. INTRODUCTION

My name is Robert Millikin. I am testifying this morning as the Vice President of the National Association of Development Companies (NADCO) the professional trade association organized to represent the Section 503 Certified Development Companies (CDCs) in Washington. My testimony will be in five parts: this inroduction, an update on the 503 program, some comments on H.R. 2132 and H.R. 860, some comments on the need for expansion capital for small businesses and some final comments on funding levels for the 503 program.

NADCO is a membership organization of Section 503 CDCs with elected directors from each of the federal regions. Kendall Bert from the Tucson Local Development Corporation in Tucson, Arizona is the President.

NADCO currently has 120 active member CDCs plus an additional eight (8) associate or affiliate members—bankers, law firms, etc.—or new groups thinking of becoming CDCs. The NADCO members tend to be the larger more active groups and the last time we checked, NADCO members were responsible for approximately 80 percent of the loan volume of the 503 program.

NADCO has vice presidents and active committees in four areas—administration, membership, technical issues, and congressional relations.

NADCO's second annual membership meeting was held in Washington at the Capital Hill Quality Inn from April 13-15. A copy of the Conference brochure is attached for your information.

I am also the coordinator for the Columbus Countywide Development Corporation (CCDC), a 503 certified development company in Columbus, Ohio. CCDC has been certified for fourteen (14) months, and has, to date, packaged the financing for sixty (60) projects costing $26,000,000 generating 1,400 new jobs. Our CDC has obviously been very active and I would like to take this opportunity to express our appreciation for the fine efforts of SBA District Director Frank D. Ray, District Council Louis Stevenson, and Loan Officer Jennifer Flocken.

In addition, I would like to mention that Ohio has organized its twenty (20) CDCs with the Ohio Association of Certified Development Companies the majority of which are NADCO members. I serve as President of that organization.

II. 503 UPDATE

According to the latest information we have, there were 378 Certified Development Companies as of March 25. Forty-eight states are represented, and the CDCs represent an interesting mix of statewide versus local, independent versus affiliated, government versus private sector, etc.

The volume of approved loans grew very slowly at first, but increased substantially to $23 million in February from an average level of $8 or $10 million per month in the proceding months. It remains to be seen whether this increase will sustain.

I would like to quote you the numbers for jobs created during this period of record high unemployment; however, the statistics are unclear pertaining to jobs created versus jobs retained. However, the statistics show 970 loan approvals, totaling $177.2 million dollars since the beginning of the program which, at 40 percent of project cost represents between $450-$500 million of investment in growing profitable small businesses—which is a dramatic contribution to what the economy needs most of all, capital investment by growing profitable small and medium sized businesses.

III. H.R. 2132 AND H.R. 860

Your letter dated March 24 requested comments on Sections 1 and 7 of H.R. 2132 and Sections 17 and 18 of H.R. 860. NADCO's position on these issues is summarized below:

A. H.R. 2132

1. Section 1 (Funding Level): NADCO supports the highest funding levels.
2. Section 7 (Tax Exempt): NADCO supports the subordination of 503 debentures to tax exempt obligations.

B. H.R. 860

1. Section 17 (Working Capital): At this time, NADCO has not voted to support the proposal to ad working capital as an eligible use of proceeds on Section 503 funded projects.
2. Section 18 (Tax Exempt): NADCO supports the subordination of 503 debentures to tax exempt obligations.

IV. EXPANSION CAPITAL FOR SMALL BUSINESS

I won't take the time to comment on unemployment, stagnating business investment and the need for measures to stimulate job creation in small business, but I would like to comment on the difference between 503 types of projects, projects funded by our close friends in the Small Business Investment Company (SBIC) program and projects funded in the highly publicized business of venture capital.

Perhaps a diagram will help which is enclosed. Please refer to exhibit A which is supposed to be a pyramid representing the total universe of small business financing possibilities. Please note that the top tier represents venture capital opportunities—the cream of the crop. These are mostly high-tech start-up businesses. There are relatively very few potential investments in number and very high potential gains for investors, very risky but also potentially very profitable. This top sector is the domain of totally private venture capitalists.

The next tier is labeled risk capital. Obviously this is an over simplification; but this represents a greater variety of projects that are in part financed by small business investment companies, in many cases banks and other sources of investment. These projects typically are expansion and start-ups and are not as risky as the tier of venture capital projects.

The third tier, which by far is the largest, is labeled expansion financing. This is the domain of the 503 program. These are the existing businesses that mostly do not have prospects for the extraordinary growth necessary to interest venture capitalists and most SBICs are not interested in long-term fixed asset financing. There are many more potential 503 projects than in the other categories.

The small business associations, such as the National Small Business Association and the National Federation of Independent Businesses, say that their members do not benefit from the venture capital industry or even SBICs. Their members are mostly existing businesses seeking capital for expansion. The 503 program can help this far greater number of businesses however, as evidenced by its widespread application and rapid growth in communities across the country.

Again, this is an over simplification but it has proved helpful in other presentations. It also stresses the incredible importance of the 503 program in impacting a large number of small businesses and the most important issue now facing us, the creation of permanent private sector jobs.

V. FUNDING LEVELS

To quote the old clinche "We are between a rock and a hard place" on funding levels for the 503 program. the CDCs did not fully use the money allocated for them in fiscal year 1982, and it is problematical whether they will hit it in fiscal 1983. Consequently, NADCO's request for additional funding might appear unsubstantiated.

The problem however, is that we are told by SBA officials that they will support certain requested and much needed technical changes such as permitting 503 debentures to be subordinate to industrial development bonds, shortening the permissible average debenture maturity to 10 years relaxation of the alter-ego rule, relaxation of the definition of economic development, and others because these changes might spur loan demand and cause it to exceed the appropriated levels. Thus, we are darned if we do and darned if we don't. We aren't fully using what you've allocated us, and they won't permit the necessary changes to permit loan volume to grow.

If this government is serious about helping people who are unemployed, and if policies to create permanent jobs in growing small businesses are more favorable than welfare, unemployment compensation, make-work jobs in public employment, etc. then we need both the increased funding levels and the leadership on these technical issues that I have mentioned, but which I will not dwell on at this point now.

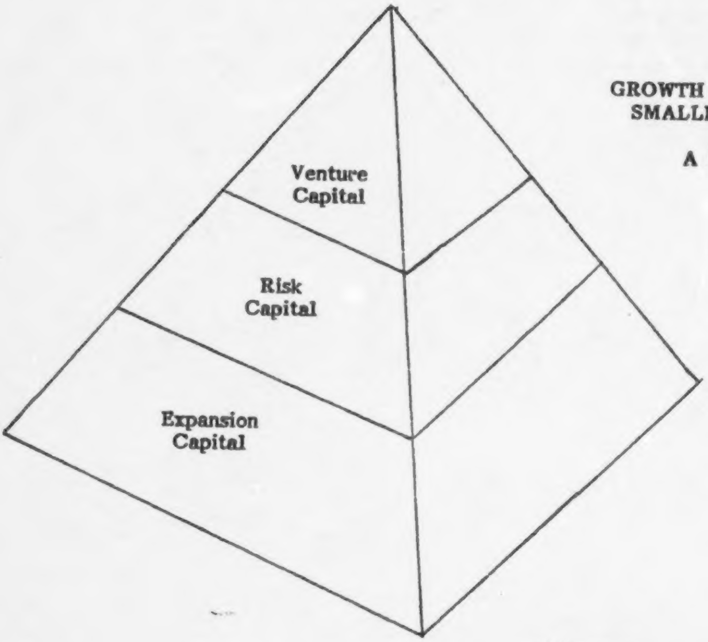
Consequently, NADCO is strongly recommending both the increased funding levels currently before the Congress and the Administration and relaxation of the minor technical issues that have been previously submitted.

We appreciate this opportunity to present the views of NADCO before this Committee.

EXHIBIT A

GROWTH CAPITAL FOR SMALLER BUSINESS

A Pyramid


Venture Capital
Risk Capital
Expansion Capital

GROWTH CAPITAL FOR SMALLER BUSINESS

A Pyramid

Tier	Risk	Reward	Volume of Business	Private or Public $
Venture Capital	Very High	Very High	Very Few	Totally Private
Risk Capital	Moderate	Moderate	Moderate	Mostly Private
Expansion Capital	Low	Low	Very Many	Public/Private

NADCO

National Association of Development Companies

NADCO

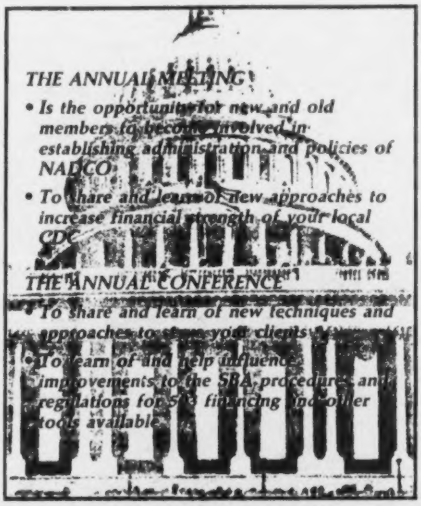
Increasing Influence and Strength of Certified Development Companies and SBA 503 Financing through our Second Annual Meeting of Members and Guests

ANNUAL MEETING & CONFERENCE

April 13-15, 1983
Quality Inn - Capitol Hill
Washington, D.C.

NADCO

NADCO's 1983 ANNUAL BUSINESS MEETING AND CONFERENCE reflects the growing importance of certified development companies and improvements to the SBA 503 financing program as a service to both our local communities and to the U.S. Small Business Administration.



THE ANNUAL MEETING

- *Is the opportunity for new and old members to become involved in establishing administration and policies of NADCO.*
- *To share and learn of new approaches to increase financial strength of your local CDC.*

THE ANNUAL CONFERENCE

- *To share and learn of new techniques and approaches to serve your clients.*
- *To learn of and help influence improvements to the SBA procedures and regulations for 503 financing and other tools available.*

CONFERENCE SCHEDULE

WEDNESDAY, APRIL 13

1:30-5:00PM
COMMITTEE MEETINGS

4:00-6:00PM
CONFERENCE REGISTRATION

6:00-8:00PM
RECEPTION FOR NADCO MEMBERS AND GUESTS

THURSDAY, APRIL 14

8:30-9:45AM
OPENING REMARKS

- Rep. Berkley Bedell of Iowa (continental breakfast)

ANNUAL BUSINESS MEETING

- President's Report & Membership Recognition
- Committee Reports on Past Year Activities and Recommendations
- Nominations Committee Report for Election of New Board and Officers

10:00-10:45AM
REGIONAL CAUCUS MEETINGS

- Election of Regional Directors
- Regional Membership Activities Proposed

11:00-11:45AM
BUSINESS MEETING RECONVENE

- Report on Regional Caucuses
- Election of At Large Board Members
- Legislative/Congressional Report

12:00-1:30PM
LUNCHEON

- Keynote Speaker
  James Sanders—Administrator
  U.S. Small Business Administration

1:45-3:15PM
SBA/TECHNICAL ISSUES PANEL

- Moderator-Scott Berman, Lawrence Avenue Dev. Corp.

NADCO

3:30-5:00PM
VISITS TO SENATORS/REPRESENTATIVES

5:00-7:00PM
CONGRESSIONAL RECEPTION

8:00-10:00PM
BOARD OF DIRECTORS MEETING

FRIDAY, APRIL 15

8:30-10:00AM
CONCURRENT PANELS

A. Marketing of your services
  - Alternative approaches to your clients, lenders and referral sources
  - Moderator, Art Goodman, San Diego Local Dev. Corp.

B. Increasing self-sufficiency
  - Using fees and cash flow [illegible] help yourself
  - Moderator—Dick Beye[illegible] Fund—Local Dev. Cor[illegible]

10:15-11:45AM
CONCURRENT PANELS

C. Closing the 503 debenture
  - Simplifying what is perceive[illegible]ted
  - Moderator—Robe[illegible]illikin, Columbus Citywide Dev. [illegible]

D. Computerized assistance to CDC's
  - Using computers for loan applications and organizational purposes
  - Moderator—Douglas Calhoun, St. Louis Local Dev. Corp.

12:00-1:30PM
LUNCHEON
  - Introduction of New Officers
  - Report on Board of Directors meeting

FRIDAY, APRIL 15, cont.

1:45-3:15PM
CONCURRENT PANELS

E. Documentation Requirements
  - Recordkeeping for loan servicing, SBA reports and SBA audit
  - Moderator—James McDonald, Evergreen Community Dev. Assn.

F. First Mortgage Lenders
  - Identifying and lining up alternative first mortgage lenders
  - Moderator—John Weiss, Baltimore Economic Dev. Corp.

3:30-5:00PM
Meetings of new officers and committees

HOTEL ARRANGEMENTS

The Annual Meeting/Conference is being hosted at the **Quality Inn - Capitol Hill**
415 New Jersey Ave., N.W. - (202) 638-1615
Washington, D.C. 20001

A block of rooms has been reserved for the evenings of April 13 and 14. Please call for your reservation as soon as possible. Ask for the NADCO rate of $65.00 per night (single).

REGISTRATION FORM

Return to: NADCO, 1050 17th St., N.W., Suite 900, Washington, D.C. 20036 Make Copy for Additional Registrants

Registration forms should be postmarked by April 1, 1983
Please make check payable to NADCO

_____ MEMBER $125 _____ NON-MEMBER $175
_____ COMBINED NEW MEMBER DUES & CONFERENCE FEE $375

Name _______________ · _______________
Title _______________
Co. _______________
Address _______________
City/Zip _______________
Phone _______________

Amount Enclosed $_______________
Purchase Order $_______________
for $_______________
☐ Send membership information

Cancellation Policy: After April 5 $25.00 Handling Charge

CONFERENCE PANEL PRESENTATIONS THAT YOU PLAN TO ATTEND _____ A or _____ B. _____ C or _____ D. _____ E or _____ F.

NADCO
1050 17th Street, N.W., Suite 900
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to:

2nd ANNUAL
CONFERENCE

NADCO Services To Members

NADCO Active Members are entitled to:

- Periodic newsletters on developments in the 503 program
- Periodic mailings of special information about the 503 program
- Voting membership in NADCO
- Special Washington, D.C. staff assistance with technical problems or issues affecting the 503 program
- Reduced rates on special training sessions on the 503 program

NADCO is the only professional trade association in the country devoted exclusively to helping 503 Certified Development Companies. All CDCs are urged to join.

For further information, please write or call:

National Association of Development Companies
1050 - 17th Street, N.W., Suite 900
Washington, D.C. 20036
(202) 296-4022

Membership Coupon

_____ Enclosed is our $250 initial annual payment for active membership in the National Association of Development Companies.

_____ Enclosed is $250 for associate membership (for prospective CDCs).

_____ Enclosed is $100 for affiliate membership (for interested public and private sector individuals).

Name _______________ Title _______________

Organization _______________

Address _______________

City _______________ State __________ Zip __________

Telephone (____) _______________

_____ Please send me information about NADCO membership

BOARD OF DIRECTORS

President
Kendall Bert
Tucson Local Dev. Corp.
Tucson, Arizona

Vice President for Administration/Secretary
J. Martin Orr
Kansas City Corp. for Industrial Dev.
Kansas City, Missouri

Vice President for Membership
Joseph Whitaker
Jacksonville Local Dev. Corp.
Jacksonville, Florida

Vice President for Technical Issues
Scott Berman
Lawrence Avenue Dev. Corp.
Chicago, Illinois

Vice President for Congressional Relations
Henry Price
Boston Local Dev. Corp.
Boston, Massachusetts

Vice President for Finance/Treasurer
Rosalyn Amoroso
South Shore Area Dev. Corp.
Chicago, Illinois

Executive Vice President
John Sower
Washington, D.C.

Region I Director
Michael Aube
Eastern Maine Dev. District
Bangor, Maine

Region II Director
Charles Newland
Albany Local Dev. Corp.
Albany, New York

Region III Director
Judith McGough
Allentown Economic Dev. Corp.
Allentown, Pennsylvania

Region IV Director
Terry Walker
Commonwealth Small Business Dev.
Frankfort, Kentucky

Region V Director
Robert Milton
Columbus Countywide Dev. Corp.
Columbus, Ohio

Region VI Director
Elizabeth Butler
New Orleans Citywide Dev. Corp.
New Orleans, Louisiana

Region VII Director
Douglas Calhoun
St. Louis Local Dev. Corp.
St. Louis, Missouri

Region VIII Director
Jerry Howell
Provo Dev. Company
Provo, Utah

Region IX Director
Richard Beyer
Las Medanos Fund
Pittsburg, California

Region X Director
James McDonald
Evergreen Community Dev. Assn.
Seattle, Washington

WASHINGTON REPRESENTATIVES
Allen Neece Tom Cator
Neece, Cator & Associates

FOUNDING CHAIRMAN
Samuel S. Beard

National Association of Development Companies
1050 - 17th Street, N.W., Suite 900
Washington, D.C. 20036
(202) 296-4022

NADCO

Serving The Nation's Certified Development Companies

Introduction

The National Association of Development Companies (NADCO) has been organized to represent the SBA Section 503 Certified Development Companies (CDCs) in Washington.

Many types of groups have associations to represent their interests—to be on the spot in Washington representing the members in negotiations with SBA officials, senators, congressmen, congressional committees and others.

The National Association of Development Companies is performing this function for Section 503 Certified Development Companies in order to assure their maximum effectiveness in creating private sector jobs in the American economy by providing long-term financing to small and medium-sized businesses.

Section 503 Background

The Section 503 program was signed by the President in the summer of 1980. The program is administered in the office of the Associate Administrator for Financial Assistance at SBA in Washington. Over 300 development corporations have been officially certified.

Purpose

The purpose of the National Association of Development Companies is to:

Represent its membership in negotiations with SBA officials.

Represent its membership in negotiations with senators, congressmen, and congressional staff members—particularly those with the congressional committees that affect the Section 503 program.

Represent its membership in negotiating changes in legislation, regulations, operating procedures, and other matters—such as the use of Section 503 funding on projects with tax exempt financing, funding levels for future years, loan servicing procedures, prepayment problems, reporting requirements, etc.

Assist its membership with other issues relating to the 503 program—such as special training programs, marketing techniques, audit checklists, technical issues and loan closing and processing procedures.

Organization

NADCO is a membership organization. Policy is made by the Board of Directors, working through four standing committees—Administration, Membership, Congressional Relations and Technical Issues. The Board includes a representative from each of the Small Business Administration's ten federal regions, and is elected by the membership at its annual meeting in the spring. The Association maintains an administrative staff in Washington to assist the membership on specific issues of concern to their CDC's and the 503 program as a whole.

NADCO's membership are the more active and successful CDCs that are responsible for over 60% of the total volume of Section 503 loan approvals.

Dues/Budget

Annual membership dues for CDCs are $250 or 0.1% of debentures closed, whichever is higher—up to a maximum of $750 per year. Two other types of membership are available—Associate, which is open to prospective CDCs, and Affiliate, which is open to all others interested in the 503 program.

Reasons For Membership

There are several important reasons for joining NADCO:

Small Business Development Financing—The 503 program is the best available tool to fill the "long-term loan gap" for small and medium-sized businesses—the main source of new job creation in the economy, both in distressed areas and nationwide.

Strength Through Diversity—Section 503 Development Corporations are being supported by a wide range of groups and organizations including: (1) public bodies such as cities, counties and states; (2) non-profit organizations such as chambers of commerce, neighborhood organizations and minority enterprise groups; and (3) private interests such as bankers, realtors, accountants and lawyers.

Lobbying—NADCO actively represents the 503 membership in negotiations with government officials in Washington—both at SBA and on Capitol Hill.

Revenue—Section 503 CDCs are allowed to charge fees for projects they finance. This is perhaps the only new source of funding for local economic development.

Mr. MITCHELL. What I would like to do is to take it three at a time if we can.

Mr. MILLIKIN. OK. Three at a time?

Mr. MITCHELL. Right. Then also what I would like to do is hear the testimony from the three panelists and then we go for questions after all three have made their presentations.

Mr. MILLIKIN. OK. Then I will introduce the first two. On my right is Mr. John Weiss, who is senior vice president of the Baltimore Economic Development Corporation. Mr. Weiss also serves as an officer and director of NADCO.

To his right is Mr. Frank Brooks Robinson who is president of the Regional Industrial Development Corp. of Southwest Pennsylvania.

Mr. MITCHELL. Thank you. Do you want to proceed next, Mr. Weiss?

TESTIMONY OF JOHN C. WEISS III, SENIOR VICE PRESIDENT OF FINANCE, BALTIMORE ECONOMIC DEVELOPMENT CORP. [BEDCO]

Mr. WEISS. Thank you very much, Mr. Chairman. I would like to open by saying it is a distinct pleasure for me to testify before this committee for a number of reasons.

Mr. Mitchell happens not only to be from Maryland but he happens to be my Congressman. I live in his district and have all my life. So I thank you very much for offering us this opportunity to be here this morning.

My concern and our concern in Baltimore, through my organization, BEDCO, is the health and vitality and growth of small- to medium-size business.

The two bills that I am here to speak to today are H.R. 2132 and H.R. 860 and specifically two sections in each of the bills. In H.R. 2132, it would be sections 1 and 7 that deal with the funding levels and the tax exempt issue.

We do support the highest funding levels. We think that the opportunities of this program, the 503 program, are immense. Its predecessor program, the 502 program had an excellent track record and the Baltimore Economic Development Corp. utilized it extensively. We were very, very dismayed to see that that program worked its way almost into oblivion. The 503 program has enjoyed excellent reception nationwide. In Baltimore I will say that we have funded at this point over two dozen projects with that, affecting just an incredible amount of jobs.

With the tax exempt issue, I believe that it is already a matter of law and already a matter of the SBA's regulations. In my written testimony which I have submitted to you I have cited the public law number and the CFR cite for that.

I believe these bills reiterate and emphasize and command the SBA to utilize that provision. I believe OMB has prohibited them from doing that.

The reason for our strong feeling on this is that both the 502 program and the 503 program have been designed to fund the gap of long-term capital for small- to medium-size businesses.

By bringing tax exempt financing in as eligible for first mortgages under this program, we see more attractive financing being made available for small- to medium-size businesses.

This is designed and mandated to be small- to medium-size businesses which you all have heard many times before are the generators of jobs, ideas, products, and so forth.

Furthermore, as was mentioned I believe by Congressman Oberstar at the outset, and Mr. Mitchell certainly emphasized it, was the formation of a new fund in Maryland. The Development Credit Fund is the name of it. It is specifically for minority businesses statewide. We believe there will be a heavy utilization of that program in Maryland.

Unfortunately, the program does not fund bricks and mortar. It funds working capital, machinery and equipment and only up to a maximum of 10 years. The guarantee provided by the State that leverages the bank's commitment, which is three or four times the State's guarantee authority which is excellent—the State's guarantee is derived from tax exempt obligations that the State floats in the bond market, thereby prohibiting the combination of the DCF, the Development Credit Fund, with the SBA 503 program. It is like being a one-armed paperhanger.

We have good tools, we have the 503 program, we have good local initiative, we have good cooperation from our lending community and from our State legislators, but we can't bring those two programs together.

Another local initiative in Maryland is the umbrella bond program provided by the Maryland Industrial Development Financing Authority, MIDFA. It will do first mortgages. It is specifically designed to address the needs of smaller companies to provide tax exempt financing under $300,000 which has typically been the break-even or cutoff point for IRB's. It is designed to provide first mortgages as low as $80,000.

To be able to combine that with the 503 program opens up incredible sources of financing for the truly small- to medium-size businesses for bricks, mortar, plant, and equipment.

H.R. 860, sections 17 and 18 deal with the working capital issue and the tax-exempt issue. Again, on section 18 on the tax-exempt issue my comments would be the same.

On the working capital issue my fear is that too many practitioners in my field, economic development finance, as well as some politicians, equate working capital with venture capital. It is not.

Working capital is not a replacement for equity. It is not there to fund losses. It is there to fund expansion, to fund growth. The SBA 503 program is there to fund expansion in growth.

You are not going to have bricks and mortar expansion or new equipment without corresponding increases in inventory, accounts receivable and, most importantly, a larger payroll. I think it would be imprudent not to consider working capital when considering fixed asset expansion. The existing 503 program absolutely does not consider it. There is not a place on any one of the forms to even note the working capital requirements that go hand in hand with this fixed asset expansion. The program does not even address it. That is imprudent.

I will say that my background has been about 8 years in the economic development finance field, 12 years in commercial lending. I have a master's degree in finance and a bachelor's degree in business administration. I feel that I have a sufficient amount of experience and academic instruction to address that issue. It needs to be addressed in this legislation and in this program.

I want to mention that we feel that the SBA has been a good partner. Obviously, we think there could be some improvements. We are very lucky that our Baltimore district office has some very dedicated staff people and has been extremely cooperative.

We have been able to get them to get out of their office, to get their shoes dirty, to get them through the factories, to get them down to our offices and they have done that.

As a side comment, every time they go from Towson, which is about 10 miles from the heart of the city, down to downtown, they have to put through an elaborate travel request for them to get reimbursed for $5 for the parking. That is crazy. If you gentlemen could address that, I think our office could be more responsive.

However, I would like to summarize my comments by saying that we support the 503 program. We applauded this committee 3 years ago in their foresight and cooperation in getting the 503 program enacted.

I will say that I believe that was the Congress intent 3 years ago, as recorded now in the conference report, but in the law and in the CFR, to permit tax exempt revenue or development bonds to be in a first mortgage position, not parity, not in a subordinated position with this program, the emphasis being small- and medium-size businesses.

I would also like to take this opportunity to say that there are some other technical issues which I know this committee has been made aware of that are not addressed in these bills. Hopefully they will be addressed elsewhere.

They deal with relaxation of the alter ego requirements. I have spent some time with Mr. Mitchell's staff on that, and making the debentures term more flexible by bringing it from a minimum of 15 years down to 10 years and also increasing the SBA's participation from $500,000 up to $750,000 or $1 million. Just through inflation we are finding that $500,000 is restrictive. There are many very employment-sensitive projects where $500,000 just doesn't cut it any longer.

A Heidelberg printing press, for instance, in Baltimore tends to be a real center of printing activity. It costs $1 million right away and you haven't even addressed anything else that goes along with it, and that is just for one press.

I would like to conclude by thanking you all again for this opportunity to present our views. When you are through with the panel I would be happy to entertain any questions.

[Mr. Weiss' prepared statement follows:]

PREPARED STATEMENT OF JOHN C. WEISS III, SENIOR VICE PRESIDENT OF FINANCE, BALTIMORE ECONOMIC DEVELOPMENT CORP. (BEDCO)

My testimony this morning in support of H.R. 2132 and H.R. 860 shall be brief. Specifically, our position on Sections 1 and 7 of H.R. 2132 and Sections 17 and 18 of H.R. 860 is:

A. H.R. 2132

1. Section 1 (Funding level): BEDCO supports the highest funding levels.
2. Section 7 (Tax Exempt): BEDCO supports the subordination of 503 debentures to tax exempt obligations.

B. H.R. 860

1. Section 17 (Working capital): BEDCO supports the addition of working capital as an eligible use of proceeds on Section 503 funded projects.
2. Section 18 (Tax Exempt): BEDCO supports the subordination of 503 debentures to tax exempt obligations:

It is important to note that the Baltimore Economic Development Corporation through its affiliate, the BEDCO Development Corp., a citywide Certified Development Corporation under SBA 502 and 503 programs has had extensive experience in the processing of both tax-exempt and Federally guaranteed loans. Certified as an LDC (local development company) in 1977, we have financed 17 projects with the Section 502 program. Since 1981, we have utilized the new Section 503 program in approximately 2 dozen projects averaging about $600,000 each. We are also the point of origin for virtually all tax-exempt financing within the City of Baltimore. Both of these bills will permit the combined use of tax-exempt financing with SBA 503 loans. This combination will make more attractive financing available to eligible small businesses, thus encouraging investment in new plants and equipment and stimulating the creation of new jobs and taxes. At the present time (and only since the President signed the Jobs bill), these two tools, which are quite attractive individually, can only be used together through the end of this fiscal year, September 30, 1983. Consequently, a significant number of employment sensitive loan requests are denied favorable funding. Moreover, in Maryland and in other states, bond programs such as the Maryland Industrial Development Financing Authority's (MIDFA) umbrella bond have been created to help small companies take advantage of lower cost tax exempt financing. However, these programs cannot be used with the SBA 503 program, thus limiting the effectiveness of local initiatives.

It must be emphasized that Section 503 of the Small Business Investment Company Act is designed to make SBA an active partner with State and local governments and the private sector in making long term capital available for small business expansion and job creation. In the conference report accompanying Public Law 96-302, which established the section 503 program, it states: "SBA should not disapprove the guarantee of any debenture or any loan made with the proceeds of a debenture issue, solely because the proceeds would be used in a project whose other sources of financing include, or are collateralized by tax-exempt industrial revenue or development bonds."

I believe that the Congress's intention was clear then. Moreover, SBA's regulations, at 13 CFR 108.503-4(c) state: ". . . SBA may participate in projects whose other sources of financing include or are collateralized by tax-exempt obligations. Further, loans made with the proceeds of 503 debentures may be subordinated to such obligations."

Mr. Chairman, as you and this committee are aware, the 503 program can play an important role in revitalizing local communities across the Nation. Baltimore has clearly benefited in recent years through the aggressive and creative use of public/private financing with a heavy reliance on both IRB's and the SBA. Literally thousands of jobs have been retained and created by these programs. We are grateful to a cooperative and dedicated staff at the Baltimore District Office of the SBA. However, to continue in a meaningful fashion, we must not only pass H.R. 2132 and H.R. 860, but address other much needed technical changes (e.g.: relaxation of the alter-ego rule and shortening the permissible average debenture maturity to 10 years).

And finally, in stating our support of the inclusion of working capital in 503 funded projects it is our intent for it to be "expansion" capital.

Virtually without exception, each fixed asset expansion of a business demands more inventory, more accounts receivable, and a larger payroll. Prudent lending principles require consideration of these items. To exclude them from this valued program creates unnecessary obstacles. We seek your support, not to fund losses, but to fund growth.

BEDCO is strongly recommending both the increased funding levels currently before the Congress and the Administration and relaxation of the minor technical issues that have been previously submitted by NADCO.

Thank you for the opportunity to present our views before this Committee.

Mr. MITCHELL. Thank you very much. We appreciate your testimony.

Mr. Robinson, you might want to shift the microphone or seat. It doesn't matter.

TESTIMONY OF FRANK BROOKS ROBINSON, PRESIDENT, REGIONAL INDUSTRIAL DEVELOPMENT CORP. OF SOUTHWESTERN PENNSYLVANIA (RIDC), AND CHAIRMAN, PITTSBURGH-COUNTYWIDE CORP. (PCW)

Mr. Robinson. Good morning, sir.

I am Brooks Robinson from southwestern Pennsylvania.

I am delighted to be here representing a traditional heavy manufacturing region of this Nation. A region that is in dramatic economic transition. A region not without either opportunity or hope, but certainly one that needs to have creative and innovative assistance from SBA, from the Commonwealth of Pennsylvania, and from all other manners of local level.

I serve in the capacity of president of RIDC, which is a private, not-for-profit development company, having an area of nine counties in southwestern Pennsylvania, the principal charge being to diversify the economic base and to create and to preserve job opportunities.

I also serve as chairman of a private, not-for-profit corporation called Pittsburgh-Countywide, which represents the joint interests of the city of Pittsburgh and the county of Allegheny, to create low interest loans to assist in the establishment of the growth of small businesses in that region.

My responsibilities for both RIDC and PCW are to establish and operate a program that will identify and serve the business needs of the communities, and in particular emphasizing the small- and medium-sized businesses, in order that they may survive, prosper, and grow.

In the broader sense, these responsibilities are to assist the economy of southwestern Pennsylvania to diversify and to reduce its dependency upon the traditional primary metals and those related industries that have been in that region.

With this task, we encompass a wide range of duties such as technical assistance, incubator lease space, and customized job training, and, most importantly, the responsibility of packaging advantageous and creative financing for both debt and equity, to meet the particular needs of the business community.

Before assuming these responsibilities at RIDC and PCW, I served the Governor of Pennsylvania in the Commonwealth of Pennsylvania, and from the experience that I gained in the various capacities that I held there, it became very clear to me that the task of economy recovery and new business development requires both innovative and coordinated approach by using every available tool that may be combined in a range tailored to the specific business.

In a word, the traditional approaches to economic development are "history" and the success of the future will depend upon the creative responses borne from new combinations of various development and business assistance programs.

RIDC includes a nine-county region of southwestern Pennsylvania, and within this region, RIDC is developing and operating three large planned industrial parks, each, incidentally, in excess of 600 acres.

In these we serve as prototype examples of creating a host environment for business growth. These complexes currently have received a considerable amount of acceptance and contain in excess of 175 separate company operations, providing employment to approximately 14,500 persons.

Within these industrial parks, RIDC owns and operates a series of multiple occupancy buildings containing approximately 475,000 square feet, and they are serving as an incubator space for small businesses that want short-term leases in order to establish and grow.

We also operate the Foreign-Trade Zone No. 33 and the Subzone 33A, which is the Volkswagen assembly plant; and more recently, RIDC is developing, in conjunction with Carnegie Mellon University and the University of Pittsburgh, a greenhouse lease facility in which persons from the campuses or from within the business community of the region can bring high-technology ideas to conception and into the development of a new product or a new enterprise.

And, finally, RIDC has been a founding member of the Pittsburgh High Tech Council.

Under PCW, we review loan requests from the Pittsburgh URA—Urban Redevelopment Authority—and the Allegheny County Department of Development, for their small business and distressed community loan program.

The current portfolio contains 24 loans leveraging approximately $11 million, and preserving or creating 1,500 jobs.

The county and the city periodically contribute additional funds to this program, and, in addition, PCW operates a revolving loan fund, approximately $5 to $6 million, which is made up of EDA grants that have been made in the area, and the repayment of which serves that revolving loan fund.

In 1982, PCW received approval by SBA to operate the 503 program, as a certified development company.

While the nine-county region of southwestern Pennsylvania has traditionally been recognized as an economic unit, there are wide diversities throughout this region in both topography, culture, and industry, which gives us a particularly broad and challenging task on this economic recovery.

The basic steel production, primary metals activities, including the electric equipment, transportation equipment, natural materials—such as coal, sand and gravel, gas, timber—these have been traditionally at the base of our economy.

However, the severe and dramatic changes have caused the regional average of unemployment to soar well in excess of 16.2 percent, and we have pockets, in fact, that are in excess of 25 percent unemployment.

These percentages have exceeded the Commonwealth and the national unemployment percentages for several years now, and have shown very little indication of relief during a period when the Federal indicators are reporting a signal of recovery.

RIDC anticipates a slow and selective recovery, and has embarked upon a concerted effort to encourage advanced and high technology products and processes to be developed in small- and medium-sized businesses.

Through the selective recovery and the new technology efforts, RIDC and PCW have been faced with the challenge to package financial needs of these small- and medium-sized businesses in new and creative ways.

We utilize the PIDA program, the Pennsylvania industrial development loan program; the IRB programs, the revolving loan programs, that I have mentioned including our development credit corporation, the HUD programs, the EDA program. The Appalachian Regional Commission, and obviously the commercial lenders and equity investors from within and from without the region, also play an important financial role.

But with high interest rates, fewer available Government programs, greater competition for these dollars, and more recently, the more restrictive program eligibilities and priorities established at all levels, including the financial packaging, has been complex and is testing.

PCW welcomes and supports the SBA 503 certification and is actively marketing this program at this time. We anticipate that we will develop at least a dozen new projects in the remainder of 1983, and anticipate that generally the 503 participation will range in the neighborhood of $400,000 to $500,000 on each of these projects.

This flexibility is very important, additionally, to our financial aid program. We strongly support, and recommend, the approval of the extension of the funding for these 503 programs.

This strong support is extended because of our interest in developing the most advantageous financial packaging for the eligible businesses in southwestern Pennsylvania.

Beyond this, however, our support is sharpened by some of the following reasons.

While prime rates of interest have fallen over the past 6 months, and for the moment have removed some of the anxiety from the investment community, we have not seen a complementary reduction of borrowing rates to medium or small businesses.

As the economy recovers, these businesses, which aggregate our largest employers, will be frozen out of the recovery, losing their valuable market share to the more affluent, larger businesses and not able to increase their employment numbers.

This will fly directly in the face of the goals of RIDC.

The conventional lenders have moved sharply toward floating interest rates and short-term loans. Once again, the small and emerging businesses are confronted with a moving target, that where their capital cannot be bracketed and within the more narrow capacity of their ability to secure debt.

New eligibility requirements under the IRB program, many of which we support, have eliminated from funding eligibility some of the employment generating industries which traditionally serve as employers of low and moderate income entry level persons.

This eligibility modification has dampened the development effect, impacting upon the unemployment roles of those who are most frustrated in not being able to get entry level positions.

Costs continue to creep ahead of the ability of many small businesses to meet their physical remodeling, expansion, and new construction needs.

These rising costs contribute to a stifling postponement of business growth, and new business opportunities.

And the same is true for machinery and equipment.

In our view, the 1983 narrowing of the funding of the tax-exempt eligible companies strengthens our support of the concept to continue the ability to subordinate the 503 debentures to these IRB instruments because now they are concentrated in the area of manufacturing, and distribution, and selective service industries, where we are always going to find a stable base of the region's healthy economy.

Mr. MITCHELL. May I interrupt you for just a moment. I am not pressing you, but the House is scheduled to go in at noon, and I would be appreciative if you would just summarize the balance of your testimony. The entire statement will appear in the record.

I think we have five more witnesses, so if you could do that, it would be most helpful.

Mr. ROBINSON. All right, the summary is that in our regional economy, we have two strong recommendations to present to you today; and they are to maintain and support the level of funding in the SBA programs, and to that extent I would herald what you said earlier.

We do need direct loan money, and since the 503 programs now have qualified and capable people to review loans, let us serve as a portion of the staffing requirements for the SBA programs.

Mr. MITCHELL. Yes.

Mr. ROBINSON. And we do support the subordination of the 503 debentures to the tax-exempt instruments of the IRB's.

Mr. MITCHELL. Thank you very much.

You are in a spate of activity there, and it sounds very exciting.

Under either of your programs, the RIDC or the Pittsburgh-Countywide Corp., are you having any problems with losses or defaults?

Mr. ROBINSON. We have experienced a number of defaults, some workout situations because of the motivation that we have in trying to development the economy, we tend to try to extend them and work them out. We have seen some really serious impacts that go into the heart of the entrepreneur, his family, and his employees, that may financially and emotionally cause these people never to come back into the business world.

Mr. MITCHELL. I didn't raise that to be critical. I insist in every one of these hearings that we expect some losses.

Mr. ROBINSON. Yes.

Mr. MITCHELL. This is a business world. No one has a guarantee that every business that starts is going to be successful.

[Mr. Robinson's prepared statement follows:]

PREPARED STATEMENT OF FRANK BROOKS ROBINSON, PRESIDENT, REGIONAL INDUSTRIAL DEVELOPMENT CORP. OF SOUTHWESTERN PENNSYLVANIA, AND CHAIRMAN, PITTSBURGH-COUNTYWIDE CORP.

BACKGROUND

My name is Frank Brooks Robinson, and I am offering this testimony to the House Small Business Committee in two capacities which I currently serve. I am President of the Regional Industrial Development Corporation of Southwestern Pennsylvania (RIDC), and I am Chairman of Pittsburgh-Countywide Corporation (PCW).

RIDC is a private, non-profit corporation chartered under the Pennsylvania Nonprofit Corporation Law of 1933, as amended, and represents the desire of regional business, government, labor and academic leadership to achieve the following goals: to expand, strengthen and preserve the region's employment base through retention and expansion of job opportunities; to develop and promote programs that assist in the creation of a more diversified regional economy.

PCW is a private, nonprofit corporation, also chartered under the Pennsylvania Nonprofit Corporation Law of 1933, as amended, and represents the joint interest of the City of Pittsburgh and the County of Allegheny to create and operate a low interest loan program to assist the establishment and growth of small businesses and to aid in the retention of businesses in distressed communities. PCW is an SBA approved 503 Certified Development Corporation (CDC).

My responsibilities with both RIDC and PCW are to establish and to operate a program that will identify and serve the business needs in this community, with particular emphasis on emerging, small or medium-sized companies, in order that they may survive, prosper and grow. In a broader sense, these responsibilities are to assist the economy of southwestern Pennsylvania to diversify and to reduce its dependence upon the traditional primary metals and related industries of this region. While this task encompasses a wide range of duties such as technical assistance, incubator lease space and customized job training, the most important responsibility is that of packaging advantageous and creative financing for both debt and equity, to meet the particular needs of the business community.

Before assuming the responsibilities outlined above at RIDC and PCW, I served the Commonwealth of Pennsylvania under Governor Thornburgh. In these duties I was charged to organize the economic development delivery system of the Commonwealth and served as Executive Deputy Secretary of Commerce and Acting Secretary of Commerce between 1979 and 1980. Under the Governor's direction, I then developed the concept of the Economic Development Committee which is a Cabinet ranked Committee which combined resources of eight departments and is designed to provide a vehicle through which the Governor can direct economic development priorities toward specific project solutions. From this experience it became clear that the task of economic recovery and new business development requires an innovative and coordinated approach to using every available tool, in as many combined arrangements as is possible to tailor to the needs of each business. In a word, the traditional approaches to economic development are "history" and success in the future will depend upon the creative responses borne from new conbinations of various development and business assistance programs.

The RIDC region includes the nine counties of southwestern Pennsylvania and within this region RIDC is developing and operates three planned industrial parks in the region as prototype examples of a "host environment" for business growth. These complexes have received considerable acceptance and now contain in excess of 175 separate company operations, providing employment to approximately 14,500 persons. Within these industrial parks RIDC owns and operates multi-occupancy buildings containing approximately 475,609 square feet of "incubator" space for growing businesses. RIDC is the grantee-operator of Foreign-Trade Zone No. 33 and Subzone 33A at the Volkswagen of America vehicle assembly facility at New Stanton, Pennsylvania. Most recently, RIDC is developing in the Oakland-University area "greenhouse" lease facilities in which persons may bring their high technology ideas to conception and to the development of a new product and a new enterprise. RIDC is a founding member of the Pittsburgh High Technology Council.

PCW serves to review the loan requests of the Pittsburgh Urban Redevelopment Authority and Allegheny County Department of Development under their small business and distressed communities loan programs. The current portfolio contains 24 loans leveraging $11 million and preserving or creating 1,518 jobs. The County and City periodically contribute additional funds for the expansion of these loan purposes. In addition, PCW operates a Revolving Loan Fund made up from EDA grants that have been made in this area. In 1982, PCW applied for and received SBA approval to act as a Certified Development Company and is now marketing this program in the City of Pittsburgh and Allegheny County.

SOUTHWESTERN PENNSYLVANIA

While the nine-county region of southwestern Pennsylvania has traditionally been recognized as an economic unit, there is a wide diversity throughout in topography, culture and industry which provides a broad and challenging task for economic recovery. Basic steel production, primary metals activities and related industries in electric equipment, transportation equipment and natural materials, such as coal, sand and gravel, natural gas and timber have traditionally been at the base of this economy, however, severe and dramatic changes have caused the regional average of unemployment to soar well in excess of 16.2 percent. These percentages have exceeded the Commonwealth and National unemployment percentages throughout the past years, and have shown very little indication of relief during a period when the federal indicators are reported to signal recovery. The RIDC anticipates a slow and selective economic recovery, and has embarked upon a concerted new effort to encourage the advanced and high technology products and processes to be developed by small and medium-sized businesses.

Through the selective recovery and the new technology efforts, RIDC and PCW have been faced with the challenge to package the financial needs of small and medium-sized businesses in new and creative ways. We utilize the Pennsylvania Industrial Development Authority (PIDA) loan program, the Industrial Revenue Bond (IRB) tax-exempt program, our own Revolving Loan Fund programs, the Western Pennsylvania Development Credit Corporation and all other federal, state or county loan or grant programs that are yet available and funded, including the HUD programs, the Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC). Obviously, the commercial lenders and equity investors from within the region, and beyond, play an important financial role, but with high interest rates; fewer available government programs; greater competition for these dollars, and more recently, the more restrictive program eligibilities and priorities established by the federal, state and local authorities, the financial packaging has been complex and testing. PCW welcomes the SBA 503 certification and is actively marketing this program at this time. We anticipate that we will develop at least a dozen new projects in the remaining 1983, and that this flexible loan program will become an important arrow in our quiver of financial aid programs.

Public Law 98-8 recently signed by the President has now permitted the direct participation of the SBA 503 program with Industrial Development Bonds and the subordination of 503 debentures to industrial development, tax-exempt obligations. We strongly recommend that this approval be extended beyond the current September 30, 1983 deadline as permitted by the bills' approval through formal action by responsible governmental bodies.

This strong support is extended because of our interest in developing the most advantageous financing packages for eligible businesses in the southwestern Pennsylvania region, and thus to aid them in survival and growth. Beyond this, however, our support is sharpened by the following reasons:

While prime rates of interest have fallen over the past six months, and for the moment have removed some of the anxiety from the investment community, we have not seen a complimentary reduction of borrowing rates to medium or small businesses. As the economy recovers these businesses, who aggregate our largest employment force, will be frozen out of this recovery, losing their valuable market share to more affluent, larger businesses and not be able to increase their employment numbers. Net, this will fly in the face of the two aforementioned RIDC goals.

Conventional lenders have moved sharply toward floating rates of interest and shorter loan terms. Once again small and emerging businesses are confronted with a "moving target" for their capital needs that cannot be bracketed within their more narrow income capacity and their unsecure market relationships.

New eligibility requirements for the IRB program, which in the main we support, have eliminated the funding ability to some of our employment generating businesses which traditionally serve as employers of low and moderate income entry level persons. This eligibility modification and its dampering development effects impact upon our unemployment roles experience frustration in not being able to secure these entry level experiences.

Costs continue to creep ahead of the ability of many businesses who need physical remodeling, expansion or new construction to accommodate their real or anticipated production recovery levels. These rising costs contribute toward a stifling postponement of business growth, new employment opportunities and regional economic dynamics. The same is true for the machinery and equipment needs of small and medium-sized businesses.

In our view the 1983 narrowing of the funding of tax-exempt eligible companies through the IRB program strengthens our support of the concept to continue the ability to subordinate 503 debentures to these instruments since now these eligible projects will be more concentrated in the areas of manufacturing, distribution and service industries which will always be the stable base of a region's healthy economy.

FUNDING LEVELS

The RIDC and PCW strongly support the continued funding levels of the 503 program, including the supplemental appropriation of the "Job bill," and urge continued appropriation of these increased levels in the future.

In our efforts to package financing for businesses, we note what may not be generally obvious. The equity participation, as seed capital or as venture capital, offers a very selective and very competitive special advantage for businesses. These funds are limited, and because of their inherent risks they are awarded on a very selective basis. Perhaps this condition will moderate in time as more equity investment is brought into the market place, but for now, most small and growing businesses must face their future capital needs as debt, and as stated before this debt must be tailored from among all possible resources to provide a specific solution to the expanding business.

For economic recovery in the broader sense it is important to establish progress, the "bell-cow" syndrome if you wish, and then to maintain momentum. This process takes years to achieve, but once underway the development and employment rewards can be enormous, and the effects of these dynamics can permeate all facets of the community. All boats rise with this tide, however, without a continued level of funding that will maintain this momentum, the tide can drain quickly and the momentum be lost.

The 503 program can stand at the heart of a sustained economic and supportive business recovery if its program level is adequately funded and administered by equally creative SBA officials. At this point in my remarks, I would be remiss if I did not note that the Pittsburgh District SBA office is newly headed by Joseph Kopp, and we have all sensed his determination that this 503 program and other important areas of SBA participation in the District will be conducted in the same spirit of creativity and cooperation as we at RIDC and PCW are in return prepared to offer the SBA.

CONCLUSION

The traditional economy that has prevailed in southwestern Pennsylvania has been in transition since the mid-1960's when census data and other indicators began to reflect a stabilization of some of the business and human outmigration. This was a beginning of the shift from an economy dependent upon the primary metals industries to an economy of service-oriented businesses with the spawning of small businesses from the applied research influences of our universities and corporate R&D facilities.

Considerable verbiage has been passed concerning our interest in assisting small businesses and in promoting emerging high technology industries, but I must report that most of this has been just verbiage. The recent recession has devastated many of these enterprises with the hardship effects piercing deeply into the human condition of the entrepreneurs, their families and their employees. The recovery of many small businesses, both emotionally and financially, will be cautious and selective, and their challenge to nurture and spawn will test all manner of regional economic development agencies to be creative, to be innovative and to be adaptive.

In southwestern Pennsylvania we are moving positively toward these emerging opportunities with the united efforts of the private, public and academic sectors. RIDC and PCW will play important roles in this economic transition. We sincerely hope that the deliberations of the House Small Business Committee will recognize and support our considerable task, and that your considerations concerning the SBA 503 Program will maintain it as an innovative and well funded resource to be used on our economic development strategies.

Mr. MITCHELL. Mr. Millikin, you took no position on section 17; is that because you couldn't achieve a consensus?

Mr. **Millikin**. To be honest with you, Mr. Chairman, we just have not brought it up to a vote of the board or the body.

Mr. **Mitchell**. Oh, I see.

Mr. **Weiss**. I was going to add to that, at our annual meeting, about 2 weeks ago, we had a number of technical issues that we felt were more important than this.

I believe that your committee has received copies of the technical issue paper.

Mr. **Mitchell**. Yes, we have.

Mr. **Weiss**. This is an important consideration, as I mentioned in my testimony. However, we have other issues that we deem more crucial at this point, not to diminish the importance of this issue, though.

Mr. **Mitchell**. When is your next board meeting?

Mr. **Milliken**. In about 5 months, sir.

Mr. **Mitchell**. Then, hopefully, by that time, we will have acted on this legislation, unfortunately without the benefit of your thinking.

Mr. Daub?

Mr. **Daub**. Thank you, Mr. Chairman.

I really enjoy reading and listening to the comments of the success stories which you have brought to our committee this morning.

The Small Business Administrator does not want subordination to tax-free bonds, as you may know. He proposes, instead, a shared first position of a tax-free and a 503 company share.

Would a joint first position injure the 503 program? Would any of the three of you care to comment on that, Mr. Weiss?

Mr. **Weiss**. I would say it would destroy it.

Mr. **Daub**. Why?

Please enlighten us in your view.

Mr. **Weiss**. The program, as it is designed now—and I will be very brief—is to encourage two things to occur.

One, borrowers to borrow money, and two, lenders to provide loans. The program now requires the first mortgagee to go at least 10 years or at least half the life of the debenture, whichever is greater, and to be in a first-lien position.

Traditionally, the commercial banks are not long-term lenders. Their sources of funds are not long term, and to go long term, they need to have a carrot. This program has provided that incentive by bringing in very soundly underwritten second mortgage financing that does not have the volatility of floating rates, that is appropriate in term with the assets being financed; and has acted as an encouragement for the lender to do two things—one to go the long-term on that first mortgage, in a prudent fashion that does not get them in trouble with the FDIC, their examiners, and so forth.

Number two, by doing that, it also encourages the lender to address the short-term needs of that borrower.

Any lender does not want to have too much exposure in any one company. That lender is not going to go more than 60 to 70 percent loan to value on the fixed assets. This program asks them to go 50; but at the same time then asks them to increase their exposure on the revolving credits and on the other short-term working capital needs of the company.

The debenture under this program comes in in a very favorable second position.

To put that in a shared first position does not increase the amount of funding that would be necessary for the project. You still would not get over the 60 or 70 percent loan to value, because that is all the bank would do anyway. You still then have a tremendous gap of 20 or 30 percent that needs to come from somewhere.

It does not make sense for that business to draw down a short-term line of credit to fund bricks and mortar. That is an inappropriate use of funds. You do not take short-term money for long-term purposes. That is a cardinal rule.

That is probably the straw that broke many businesses' backs when they have done that. So, to encourage parity in the debenture program, and the first-mortgage program, whether with the first mortgage whether it is tax exempt or conventional, is just not prudent.

Mr. DAUB. So, what happens then?

If you had a shared first position, how does that detract? I see it doesn't perhaps leverage advantage, but what does it do to——

Mr. WEISS. I don't see the lenders participating. I see them saying that that is going to muddy the liens; it is going to create extreme problems in a foreclosure, or a workout situation; it is just going to create problems.

Number two, and we have a live example right now where the borrower has decided to switch their banking relationship and needs to switch their first mortgage, so we have been able to do that. If it were a shared first position, again, it creates incredible problems, and expense for the borrower.

By permitting tax-exempts in there, it is not to be confused with other issues that are addressed in some of this regulation where you have the Government guaranteeing tax-exempts and I am not here to talk about that today under pollution control financing program.

Here it is providing a stimulus or a tool to small businesses, and it is currently available to big business.

Mr. DAUB. Would any of the others care to comment?

Mr. ROBINSON. If I could expand on that, just a note.

In order to get the IRB funded, we really are going into the private sector. We are going into the banking community. We are going into the investment community, to try to induce that money to come into this project.

If we are working with small business, we are generally not talking about companies that have either a long track record or a strong financial history.

Mr. DAUB. I think that is very true.

Mr. ROBINSON. If you could only show them a participation——ticipation——

Mr. DAUB. Yes.

Mr. ROBINSON [continuing]. In the first mortgage, you are not going to give them the inducement.

Mr. DAUB. I think that is very true.

I think that is a very good point.

Mr. MILLIKIN. One small point I would like to add, Congressman, and that is that we shouldn't take lightly the point that John made about the term.

In other words, the subordination of 503 can do to IRB's what it has done to banks in the conventional loans, that is, instead of these early calls, 5 and 7 years, it would have to stretch those calls, so that these businesses can be looking at, coming up with quite a bundle to refinance in a short term.

Mr. DAUB. OK, now.

Now, I appreciate your view. Now, let's assume that legislation introduced by our able friend from the Ways and Means Committee, Mr. Pickle, would pass, which eliminates tax-free bonds, for all practical purposes, particularly for small—we made some effort. Last year, we did eliminate franchising, massage parlors, golf courses——

Mr. WEISS. Fast food.

Mr. DAUB [continuing]. Fast food—that sort of thing from the IDA boon the IRB used. Now, let's assume that Mr. Pickle's legislation—and there is great support for it. The more liberal thinking in Congress says that that is a tax expenditure, a revenue expenditure that provides a loophole that provides financing at rates less than market rate, if you have got some Government connection.

Here is a whole set of testimony now that a whole bunch of pyramided layers of Government funding; in fact, some of you saved your Federal HUD money, and didn't spend it, and now you have got it in a revolving fund.

Now, all of a sudden tax-free bonds are eliminated; so, if we don't look at the shared investment potential, we see so many other threats coming up underneath, to the very good work you have been able to use these programs to accomplish so far, then what happens? What if the tax rate money is now gone?

Mr. MILLIKIN. I think I could say two things in response to that.

When the sunset comes, we will have to face that. In the meantime, we would like to avail ourselves in the use of this tool.

Second, conceptually, as I mentioned earlier, in my testimony, there are those of us who have States with job authorities with tax-exempt financing that we would like to utilize, and the elimination of IRB's would not affect that great potential in our States.

Mr. WEISS. To add to that, to reiterate, that I would be distressed to see that happen, No. 1; but No. 2, take the example of the development credit fund which we believe Maryland is pioneer in, which is backed by tax-exempt, municipal, or State-floated bonds, as I understand the Ways and Means Committee legislation, it would prohibit the participation of that fund with this program, and yet that fund is being underwritten by the private sector, by the lenders, and has some guaranteed authority with it.

We think that the local initiative there is significant and to lose that would put us many steps backward.

To address the issue, what would we do? Well, we would hope that we could be innovative and creative in ways to do it. That is the nature of our business.

Mr. DAUB. I was taking into account now the testimony you gave with respect to the leverage, the value of the program.

Mr. WEISS. Correct.

Mr. DAUB. And how it would be damaged if, in fact, the tax-free nature of the major part of your leverage financing would be now maybe not as attractive.

Mr. WEISS. Let me bring it home then.

I mentioned two things that this 503 program does. It motivates the borrower to borrow. That is primary. There are so many businesses that even through the tough times we have had, have had the ability to expand; they have had good demand for their product or services, but because of the interest rates have just backed away from it.

There needs to be an incentive for them to borrow an attractive financing, not give-aways, not grants, but properly underwritten, properly structured, properly conditioned loans that are repaid, with interest. These are loans which create the jobs and the taxes, and they need to be made to these companies. It is not a gift; it is not a giveaway.

Mr. DAUB. I think the Administrator's point, Mr. Chairman, on the shared thing may be an idea before its time.

In other words, it is pretty solid thinking, but I would find that only in the event would the IDA bond shelter be subject to further attack within that shared idea perhaps enhance the ability of the State fund and State programs to find leverage money, when, in fact, then SBA loans could then be shared first mortgage, and because that guarantee might be there, then there might be some ability to use your State money.

In other words, I don't happen to share the same view that the Administrator does now. As long as the structure of available funds is the way it is now, I see it muddying water, clouding the ability to shift financing, more documents, more slow-down, more paperwork.

It will be tough, particularly, for small business; and then any of you in the middle trying to facilitate their entry, makes it very difficult.

But the idea I don't want us ever to lose sight of. In fact, if the IDA bond, tax-free leverage financing becomes further impacted for whatever reasons, then the idea of a shared mortgage with SBA money coming in at some point, may have some value in bringing private sector money back into the stream for small business.

And I would only ask you to think about that part. It just may be an idea that doesn't fit right now, I don't think, but I think it has got some merit.

The thinking of it is that SBA money may be more attracted if there is a shared mortgage and, indeed, if that was the case, then private sector money may come in.

Right now, they come in because there is tax-free money. Let's put it very bluntly; that is why.

Mr. WEISS. One final——

Mr. DAUB. You need to be able to pay back 7⅞ for 15 years; isn't that neat for anybody to be able to get that kind of money, for a payback, that is terrific. I think that is probably why there is concern right now. Some people in Congress feel like that is an awfully generous writeoff, if you will, for any business.

Mr. MITCHELL. Let me interrupt you.

Mr. DAUB. And I'm done, Mr. Chairman.

Mr. MITCHELL. I just wanted to say——

Mr. DAUB. This is great testimony. May I say, I really appreciate your being here. It was terrific for my thinking.

Mr. MITCHELL. I just wanted to be on the record that I am one of those Members of Congress who has fought against tax loopholes and all that kind of thing.

But, given our present situation, and given what I anticipate in the near future, that the recovery will not be of the magnitude that it will be helpful for small businesses, I say, let's stick with what we have got.

Mr. DAUB. I support your view, Mr. Chairman. I am delighted to have you on the record in favor of tax-free municipal bonds for the time being.

Mr. WEISS. May I make a collateral comment?

Mr. MITCHELL. Sure.

Mr. WEISS. Because I think it is important to keep the perspective on this. Those of us that are in the trenches, so to speak, putting these deals together—they don't go together in 30 days, and 60 days. It takes us 6 to 8 months to put a project together, and more, if it is complex.

If the State and the Federal programs are changing constantly, it is impossible for us to speak with any credibility to the industries that we are trying to address.

Mr. MITCHELL. That is the criticism that we hear so often that we gear to move in this direction, and then somebody in Washington changes the formula, and we are left halfway between the full packaging of a project.

Gentlemen, it has been very, very excellent testimony.

Thank you.

Mr. WEISS. Thank you.

Mr. MITCHELL. The next set of witnesses are Mr. Adams, a financial associate with the Detroit Economic Growth Corp., Detroit, Mich., and Mr. Lawrence James, loan committee, the Corporation for Economic Development in Des Moines, Iowa.

Mr. MITCHELL. Mr. Adams, will you lead off for us, please. Again, I will indicate that your entire statement will appear in the record, and if you will, just go through and pick out the 6, 8, 10, or 12 major points that you want to make.

Thank you for taking the time to be with us.

Mr. ADAMS. For the sake of brevity, I will do that.

[Mr. Adams' prepared statement follows:]

PREPARED STATEMENT OF DOUGLAS F. ADAMS, FINANCIAL ASSOCIATE, DETROIT ECONOMIC GROWTH CORP.

Good morning. My name is Douglas Adams. I appreciate the opportunity to appear before you. I am financial associate employed at the Detroit Economic Growth Corporation of Detroit, Michigan ("Growth Corporation").

As Financial Associate at the Growth Corporation, I am responsible for the day-to-day management and operation of the Growth Corporation's Certified Development Company ("CDC"). I am also responsible for the management of an Economic Development Administration revolving loan fund and various other financially related activities at the Growth Corporation.

My first comment is in the form of a thank you on behalf of myself, my community, the City of Detroit and the National Association of Development Companies. We appreciate your interest in obtaining our comments in the activities of this committee.

The remainder of my presentation consists of comments in four areas: I. Activities of the Detroit Economic Growth Corporation Local Development Company; II. Our CDC's Past and Projected Activity; III. SBA 503 funding level, and IV. Technical issues.

I. THE DETROIT ECONOMIC GROWTH CORP. LOCAL DEVELOPMENT CO.

The Growth Corporation is a public/private development corporation formed in 1978 by Mayor Coleman A. Young and a coalition of top business, labor and civic leaders. The Growth Corporation is governed by a working board of directors consisting of Mayor Coleman A. Young and seventy-one (71) other prominent leaders: W. Michael Blumenthal, Chairman of the Board, Burroughs Corporation; Lee A. Iacocca, Chairman, Board of Directors, Chrysler Corporation; Walter J. McCarthy, Jr., Chairman, Board of Directors, the Detroit Edison Company; Roger B. Smith, Chairman, Board of Directors, General Motors Corporation; Arthur R. Seder, Jr., Chairman, Board of Directors, American Natural Resources Company; Douglas A. Fraser, President, United Auto Workers, et al.

The Detroit Economic Growth Corporation Local Development Company was approved by SBA as a Certified Development Corporation on March 26, 1982, with the City of Detroit as the area of operation. Our CDC contracts with the Growth Corporation for professional services. As a result of the close relationship between our CDC and the Growth Corporation, our clients are afforded the benefit of a broad resource of business knowledge from our Board members.

In fact, the Growth Corporation CDC is guided by a Board of Directors made up of certain members from the Growth Corporation's Board of Directors. Walter J. McCarthy, Jr., Chairman, The Detroit Edison Company; Thomas A. Murphy, Office of the Chairman, General Motors Corporation; Peter W. Stroh, Chairman, The Stroh Brewery Company, Mayor Coleman A. Young, et al.

These persons collectively devote several thousand hours each year to our CDC's activities. The Growth Corporation Board of Directors and the Growth Corporation CDC Board of Directors not only share, in part, membership, but they also share in a commitment to stimulate economic growth in the City of Detroit.

II. OUR CDC'S PAST AND PROJECTED ACTIVITY

Our CDC is approximately one year old. As of April 5, 1983, four projects have been approved. Project costs have amounted to approximately $4.2 million. Our CDC has, in part, and will be providing $1.2 million of that total amount. As a result of that activity, forty-seven (47) new blue collar jobs will be created.

It is anticipated that within the next ninety (90) days, three (3) additional project approvals will be consummated. This will represent a total investment potential of $2.5 million. The Detroit Economic Growth Corporation Certified Development Corporation will potentially provide approximately $1 million of the $2.5 million.

During our second year of operation, we are projecting to secure twenty (20) additional project approvals for debenture guarantees which could represent $20 million of new investment in the City of Detroit.

Of this $20 million in new investment, we are projecting that our CDC will provide approximately $5 million of the total projected investment activity.

As the nation's economy improves, it is anticipated that the small business community will consider real estate acquisition, building construction, expansion, renovation, modernization, machinery and equipment purchases. Our CDC will be able to provide financial, technical and management assistance.

Detroit is a city with a solid base of skilled workers and an administration sensitive to the need for creating jobs to match those skills. The Growth Corporation CDC directly responds to those objectives by assisting small businesses through the SBA 503 Loan Program. The extent to which we can provide assistance is, in part, contingent upon the funding level for the 503 Loan Program. Turn with me now to part three of my testimony.

III. SBA 503 FUNDING LEVEL

The importance of our activities in the City of Detroit, as related to our local economy, is that we provide a mechanism for small and medium size businesses to overcome a void in the financial market place. That void is the lack of favorably priced long-term fixed rate financing.

This void is not unique to Detroit, but is overwhelmingly common across the entire nation. The SBA 503 program in the City of Detroit affords local industry an opportunity to re-tool and expand with favorably priced long-term financing in an attempt to remain, if not to become, competitive in the local and national market place.

The City of Detroit, as of February 1983 (the latest statistics reported by Michigan Employment Service Commission) had an unemployment rate of 20.6 (101,975 unemployed) and the State of Michigan had an unemployment rate of 16.5 (699,000 unemployed). SBA's fact sheet No. 40, "Facts About Small Businesses", states that 58 percent of the nation's total employment was with businesses of less than 50 employees. Likewise, between 1969 and 1976, 56 percent of all new jobs in the United States were generated by small businesses.

The importance of small businesses to our nation's economy and the economy of Detroit cannot be under-estimated. Because of the critically important role that the small businessman plays in our economy, we are in support of the highest possible level of future funding for the 503 program. But, just as important, we are in support of severely needed technical changes in the program. The technical changes, provided below, will help facilitate the marketability of the 503 program. An increased loan demand should occur which will then justify the increased funding levels. The benefits should be seen in new permanent jobs, increased local tax base and general economic growth.

SBA has found a winner this time in the 503 Loan Program. It is hoped that the success of this program will not be frustrated or delayed.

IV. TECHNICAL ISSUES

At this time, Mr. Chairman, I would like to comment in support of the provisions contained within the recent $4.6 billion "Jobs Bill" signed into law by President Reagan on March 24, 1983. That bill, as you know, provided two critically important elements for the 503 program: (1) $100 million in new guarantee authority for fiscal year 1983, and (2) language which legally permits the proceeds of 503 debentures to be subordinated to tax-exempt bonds. The majority, if not all, of conventional private sector first mortgage financings are at a prime plus rate. If tax-exempts are at 70 percent of prime, the overall cost savings when syndicated with 503 financing (which is priced on a below-prime basis) can be quite significant during the first few years after fixed capital expansion.

The major argument for promoting the SBA 503 program is that small businesses will be able to retain more of their available cash to meet working capital needs. In some instances, the availability of tax-exempt financing will further improve the small businesses' cash flow by replacing above prime first mortgage financing with sub-prime first mortgage financing. This will enhance the facilitation of sound-based growth.

Now that 503 and tax-exempt loan accommodations can be made on the same assets, an entirely new avenue is now available to Certified Development Companies, one which will produce increased overall volume.

The encouragement of small issue tax-exempt bond financing will be most favorably received by Detroit's small business community. Speaking on behalf of NADCO's membership and perhaps other CDC's around the country, we are most grateful for not having been burdened with the task of marketing 503 and tax-exempt financing from a parity perspective. The full and absolute subordination of 503 financing to tax-exempt bond financing will best facilitate that which we are trying to accomplish.

The Detroit Economic Growth Corporation Local Development Company is organized and structured so that it is capable of addressing in a comprehensive manner the efforts of the public/private partnership to stimulate industrial and commercial expansion and modernization. This approach has been developed to create more jobs, increase the local tax base, and expand business ownership opportunities within the City of Detroit.

Thank you.

PANEL CONSISTING OF DOUGLAS F. ADAMS AND LAWRENCE JAMES

TESTIMONY OF DOUGLAS F. ADAMS, FINANCIAL ASSOCIATE, DETROIT ECONOMIC GROWTH CORP.

Mr. ADAMS [continuing]. Mr. Chairman, and members of this committee.

Good morning. My name is Douglas Adams. I appreciate the opportunity to be before you here today.

As a financial associate employed at the Detroit Economic Growth Corp., I am responsible for the day-to-day management and operation of the Growth Corp.'s Certified Development Co. I am also responsible for the management of an EDA revolving loan fund and various other financially related activities at the Growth Corp.

My first comment is in the form of a thank you on behalf of myself, my community, the city of Detroit, and the National Association of Development Companies. We appreciate your interest in obtaining our comments in the activities of this committee.

The remainder of my presentation consists of comments in four areas:

The activities of the Detroit Economic Growth Corp. Local Development Co.; our CDC's past and projected activity; the SBA 503 funding level; and two technical issues.

Going back to my first point, the Detroit Economic Growth Corp. Local Development Co., is a public/private development corporation formed in 1978 by Mayor Coleman A. Young, and a coalition of top business, labor, and civic leaders.

The Growth Corp. is governed by a working board of directors consisting of Mayor Young, and 70 other prominent leaders. Just to name a few: Michael Blumenthal, chairman of the board, Burroughs Corp.; Lee Iacocca, chairman of the board, Chrysler Corp.; Walter McCarthy, Detroit Edison Co.; Roger Smith, General Motors; Art Seder, American Natural Resources; Doug Fraser, International Union, United Auto Workers; and others.

The Detroit Economic Growth Corp. was approved by SBA as a certified development company on March 26, 1982, with the city of Detroit designated as its area of operation.

Our CDC contracts with the Growth Corp. for professional services, as a result of that relationship between the CDC and the Growth Corp., our clients are afforded the benefit of a broad resource of business knowledge from our board members.

In fact, the Growth Corp. CDC is guided by a board of directors made up of certain members from the Growth Corp.'s board: Walter McCarthy, the Edison Co.; Tom Murphy, General Motors; Peter Stroh, of Stroh Brewery; Coleman Young; and many others.

These persons collectively devote several thousand hours each year to our CDC's activities. The Growth Corp.'s board of directors and the Growth Corp. CDC board not only share, in part, membership, but they also share in a commitment to stimulate economic growth in the city of Detroit.

What is our CDC's past and projected activity?

Our CDC is approximately 1 year old. As of April 5, 1983, four projects have been approved. The project amounts have totaled $4.2 million. Our CDC has, in part, and will be providing $1.2 million of that total amount. As a result of that activity, 47 new blue-collar jobs will be created.

It is anticipated that within the next 90 days, that three additional project approvals will be consummated, and that this total investment potential will represent approximately $2.5 million.

The Detroit Economic Growth Corp. will fund approximately $1 million of that number.

During our second year of operation, we are projecting to secure 20 additional project approvals for debenture guarantees which could represent potentially $20 million of new investment in the city of Detroit.

This is provided that we maintain our current percentage of leveraging of non-Federal financing in these projects, which, I might add, is below that of 40 percent of the 503 structure.

Of this $20 million in new investment, we are projecting that our CDC will provide approximately $5 million of that total projected amount.

Part 3 of my testimony addresses the SBA funding level. The importance of our activities in the city of Detroit, as related to our local economy, is that we provide a mechanism for small- and medium-sized businesses to overcome a void in the financial marketplace. That void is the lack of favorably priced long-term fixed rate financing.

This void is not unique to Detroit, but overwhelmingly common across the Nation.

The SBA 503 program in the city of Detroit affords local industry an opportunity to retool and expand with favorably priced long-term financing in an attempt to remain, if not to become, competitive in the local and national market place.

The city of Detroit, as of February 1983—the latest statistics reported by the Michigan Employment Security Commission had an unemployment rate of 20.6 percent—over 100,000 people unemployed, and the State of Michigan had an unemployment rate of 16.5 percent, with approximately 700,000 persons unemployed.

SBA's factsheet numbered 40, Facts About Small Businesses, states that 58 percent of the Nation's total employment was with businesses of less than 50 employees.

Likewise, between 1969 and 1976, 56 percent of all new jobs in the United States were generated by small businesses.

The importance of small business to our Nation's economy, and the economy of Detroit, cannot be overestimated. Because of the critically important role that the small businessman plays in our economy, we are in support of the highest possible level of future funding for the 503 program.

But just as important, we are in support of the severely needed technical changes in the program. The technical changes basically will help facilitate the marketability of the 503 program.

An increased loan demand should occur which will then justify the increased funding levels. The benefits should be seen in new permanent jobs, increased local tax base and general economic growth.

At this time, Mr. Chairman, I will address the last portion of my testimony on technical issues.

I would like to comment in support of the provisions contained within the recent $4.6 billion jobs bill signed into law by President Reagan on March 24. That bill, as you know, provided two critically important elements for the 503 program—$100 million in new guarantee authority for fiscal year 1983, and language which legally permits the proceeds of 503 debentures to be subordinated to tax-exempt bonds.

The majority, if not all, of the conventional private sector first-mortgage financings are at a prime-plus rate.

Tax-exempts are at 70 percent of prime; the overall cost savings when syndicated with 503 financing, which is priced on a below-prime basis, can be quite significant during the first few years after fixed capital expansion.

The major argument for promoting the 503 program is that the businesses will be able to retain more of the available cash to meet working capital needs.

In some instances, the availability of tax-exempt financing will further improve the businesses' cash flow by replacing above-prime first mortgage financing with subprime first mortgage financing. This, we feel, will enhance the facilitation of sound-based growth.

Now that the 503 and tax-exempt loan accommodations can be made on the same assets, an entirely new avenue is now available to certified development companies, one which, we feel, will produce increased overall volume.

The encouragement of small issue tax-exempt bond financing will be most favorably received by Detroit's small business community.

Speaking in behalf of NADCO's membership and perhaps other CDC's around the country, we are most grateful for not having been burdened with the task of marketing 503 and tax-exempt financing from a parity perspective.

The full and absolute subordination of 503 financing to tax-exempt bonds will best facilitate that which we are trying to accomplish.

In conclusion, the Detroit Economic Growth Corp. Local Development Co. is organized and structured so that it is capable of addressing in a comprehensive manner the efforts of public/private partnership, to stimulate industrial and commercial expansion and modernization.

This approach has been developed to create more jobs, increase local tax base, and expand business ownership opportunities within the city of Detroit.

Thank you. That concludes my testimony.

Mr. MITCHELL. Thank you very much.

I do have some questions. I will get to you in a moment.

Mr. James.

TESTIMONY OF LAWRENCE E. JAMES, MEMBER, LOAN COMMITTEE, CORPORATION FOR ECONOMIC DEVELOPMENT IN DES MOINES

Mr. JAMES. My name is Larry James, and I am a member of the loan committee for the Corporation for Economic Development in Des Moines, Iowa. I guess that I am one of those volunteers that the Reagan administration has been encouraging people to become over the years. I have been quite active on our loan committee.

My statement, of course, will go into the record, but I would like to get to just a few points. Our community is a community of somewhere around 300,000 people. The industries that are in our community are basically small service industries.

We do not have large manufacturing in our area. We are also an insurance center. In the last year, I was interested to hear from the folks in Detroit, that they put four deals together, and it was somewhere around $4 million. We put four deals together, and it was something like $800,000.

That meant as much to those small businessmen and the 200 jobs that it created in our community as I am sure that it did in Detroit.

The unemployment in our State, if you believe what you read in the papers, is 10 or 11 percent for the State. But what these figures do not tell you is that it is something like 100,000 people, at least according to our State, who have left in the last 3 years for other parts of the country.

We do support the use of industrial revenue bonds with 503 financing. Having been a lender, I can tell you that it makes it much more difficult to put a deal together when you have your hands tied with various confusing regulations and laws. It is just a pretty difficult thing to deal with.

We wrestle with this all of the time when we try to put loans together through the loan committee. I might say that the first thing that we do when we see a loan coming across the loan committee is to see if we can put it together in a conventional manner.

The only other thing that I would like to say is that we are supportive of the increased funding for the 503 program.

[Mr. James' prepared statement follows:]

PREPARED STATEMENT OF LAWRENCE E. JAMES, MEMBER, LOAN COMMITTEE, CORPORATION FOR ECONOMIC DEVELOPMENT IN DES MOINES

My name is Larry James and I am a member of the Loan Committee for The Corporation for Economic Development in Des Moines (hereinafter known as Corporation). As one of five members on the Loan Committee, I review all loan applications which come to the committee for compliance with project proceeds, financial feasibility, project impact on the community and, most importantly, job creation.

Sponsored by the City of Des Moines, the Corporation was certified one year ago and serves within the geographic boundaries of the City of Des Moines. The Corporation's membership elects a Board of Directors who then elect a President and Loan Committee. The Directors empower the Loan Committee with decision-making functions. Recommended applications are subsequently endorsed by the Directors. The Corporation has established not only strong support from its local private lenders, but also complements the activities of the state-wide 503 corporation, Iowa Business Growth Company, and has an ongoing relationship with the local Small Business Development Center through Drake University.

At the completion of its first year of operation, the Corporation had achieved over $800,000 in project costs impacting over 200 jobs which resulted from four projects. The bulk of project costs allowed small businesses in Des Moines to expand, thus increase their production levels and hire more workers. Des Moines is a city entrenched with a dependence on the agri-business and related service industries, in addition to being an insurance hub. Small light manufacturing and service-oriented firms abound. In the last year alone, four major plants closed, putting approximately 8,000 people out of work. At the same time small businesses were making applications to gain financing for expansion purposes.

For example, the Precision Sewing Company is a family-owned firm which manufactures truck tarps. They were turing away business due to a lack of production space. High interest rates and short-term credit were not financially reasonable for the long-term investment the company was planning to make. With a local lender providing the first mortgage at a conventional rate and term and the business contributing 10 percent equity, the Corporation provided lower rate, longer term money and made the project a reality. A new facility completed, Precision Sewing Company, has since doubled their number of employees.

The increasing regularity of this type of situation in the midst of plant closings dramatically emphasizes the great need for continued SBA 503 investment. Based on projects to date and those in process, the Corporation's anticipated loan volume is expected to reach $2 million for the remainder of 1983.

The momentum continues to build and should not be cut short by a lack of funding or the result will be the loss of credibility of any future public/private effort. The Corporation for Economic Development in Des Moines supports the present increase of funding authorization for fiscal 1983 and further supports the recommendations for funding increases in 1984.

In should be noted, however, that in order to tap all potential projects, certain technical issues need to be addressed and revised. One which I will speak to today is tax-exempt financing in conjunction with the 503 Program on a permanent basis. Potential projects are lost continually because of the need to get reasonable financing. Des Moines is a growth center which provides jobs to those from small towns surrounding it. Iowa has minimal large manufacturing. Thus it depends on smaller service industries related to agriculture. Iowa ranks second in the nation in its number of small rural towns. People know it is difficult to obtain long-term credit in urban areas; however, I can assure you, having traveled throughout the state as a lender, the difficulties small town business owners face are greater. The small town bankers in our state lend in an agricultural-oriented economy. They are not in the business of providing long term financing. Even if conventional financing were available for business owners, it would not be financially manageable.

Again, I cannot overemphasize the need to permanently allow tax-exempt financing in conjunction with the 503 Program. While there are many successful projects, there are many more in the city and the small towns being lost due to technical restrictions such as this tax-exempt issue. If support is shown for tax-exempt financing with 503—not subordinate to nor on a parity level with 503—the goal of certified development companies to utilize full guarantee authority will be realized.

I appreciate the opportunity to speak before the Committee on these issues.

Mr. MITCHELL. Thank you.

It is very interesting. You said that your starting point is to get the package, and just try to do it on a straight conventional basis?

Mr. JAMES. That is right.

Mr. MITCHELL. What has been your experience?

Mr. JAMES. What our experience has been is that in terms of what the people want to do, in terms of the kind of expansion that they want to make to their facility, it has not been possible to do that using conventional financing.

Mr. MITCHELL. Straight financing?

Mr. JAMES. That is right.

Mr. MITCHELL. With none of your partners?

Mr. JAMES. Not to my knowledge.

Mr. MITCHELL. Mr. Adams, I am a little curious. You put four projects together, packaged then as of April of this year.

Mr. ADAMS. Yes, sir.

Mr. MITCHELL. I am curious, what kinds of projects were they?

Mr. ADAMS. Well, they were basically manufacturing in the Detroit Center Tool Co. One was a fabricator of metals, and they make parts for the auto industry. Another was an automobile dealership that does some fabricating of parts for General Motors as a supplementary operation to selling cars. That was the second one. The third was with Shelby Steel, a cut and link operation. They cut and roll steel for various companies. The fourth is most probably an individual who you might recognize, Dave Bing, with Bing Steel, a client of mine, who is expanding his operation, and buying a warehouse to do things that he could not do before.

So basically, they have been industrial type projects with the exception of one. I am leaving out one, which really should suggest that I should have mentioned five projects, Filmcraft Laboratories. They process film for the auto industry's promotions. They transfer it from reel to video disc, and back and forth. That type of thing.

But typically for the most part, our marketing efforts have been with the banks, and have been looking for industrial projects, the heavy job generators.

Mr. **Mitchell.** How many jobs were created in those four projects, created or maintained?

Mr. **Adams.** Without addressing the ones that were maintained, the ones that were created were 47.

Mr. **Mitchell.** Fourty-seven in four projects?

Mr. **Adams.** That is correct. But I might add that in those four projects, our level of participation did not exceed, a little over $1 million.

Mr. **Mitchell.** As you are presently structured, with all other things being equal, could you give me a guesstimate as to the potential that you have for projects. You have done four.

Mr. **Adams.** That is correct.

Mr. **Mitchell.** Somewhere on the drawing board, do you have a target that you are shooting for?

Mr. **Adams.** During our second year of operation, I am projecting with the assistance of one other staff person, and for the most part I do everything now myself, the number is 20. We are looking for 20 additional project approvals from SBA in the second year of operation.

Mr. **Mitchell.** Would that 20 additional projects represent your maximum potential let us say in a given year?

Mr. **James.** I do not know. I would say depending on the staff. Detroit is a big city, and there are a lot of companies. Helping 20 firms is a very small impact on a city that large. I would like to think that we could help 50, with the appropriate staff, and with the appropriate funding level, with the proper legislation to make it easier to get into the bank and cut the deal, if you will.

I think that it is very possible, but a lot of it has to do with the sophistication of the staff, the persons who are actually putting the deal together. Next year with myself, and with the one other individual that I have mentioned, I think that 20 is very reasonable.

Mr. **Mitchell.** Would I be safe in making the projection that if you created 40 some plus jobs on 4 projects, 20 would mean potentially around 200 jobs? If you did 50, potentially around 500?

Mr. **Adams.** I think that that is pretty close to being accurate. I might mention that our level of participation in these projects has been less than the normal 40 percent that you would see come from a CDC in a 503 syndication, and that is because we have used UDAG financing as well as 503 and bank financing.

We have a revolving loan fund which has in part financed a portion of the projects in concert with 503 financing and conventional bank financing. We found that in some instances in approaching the banks, that they have been willing to do more than 50 percent, and we encourage that. This has kind of kept our numbers down.

We are running around 25 percent. We did about $1.2 or $1.3 million on $4.2 million of financing. I think that that is the type of direction that we want to go with. Again, trying to maximize the dollars that we have, and leverage them as high as possible, and help as many people as we can.

I think that is the sort of direction we need to take. We intend to continue in that direction.

Mr. **Mitchell**. Mr. Daub.

Mr. **Daub**. I think one question, particularly with your able testimony and your experiences.

What is the average length of time once you have cut your deal, and have gotten everything together that it takes SBA to sign off on it?

Mr. **Adams**. Our turnaround time, if I might comment first, has been just remarkable with the Detroit district office. We are running right around 15 days. But generally——

Mr. **Mitchell**. What?

Mr. **Adams**. Fifteen days to get the authorization, 3 weeks. But on all four of the deals that I have gotten done, and have gotten authorizations on, we have not exceeded that 15 days.

Mr. **Mitchell**. Will you share that secret with the rest of us, that is phenomenal?

Mr. **Adams**. I think that it has a lot to do with the people there. Dan Hook is a loan officer, a 503 underwriting officer there. Of course, I see them very frequently attempting to establish the rapport that will allow me to get the deals out in a reasonable amount of time has had a lot to do with it. They are very talented, and they are very efficient. I think that it has a lot to do with the personnel in the district office.

Mr. **James**. Two to three months.

Mr. **Daub**. Two to three months.

What do you think accounts for that? That people do not know how technical it all is.

Mr. **James**. I think that that is part of it. I think that when the package is put together, the small business people that come in many times do not have the skills to put the package together in terms of all facets——

Mr. **Daub**. No, I meant once it gets to SBA.

Mr. **James**. Oh, once it gets to SBA. I cannot answer that.

Mr. **Daub**. You do not know?

Mr. **James**. I do not know.

Mr. **Daub**. I recognize the problem getting there. That is what you are all in the business to help them get done. I know that that does take some time. Things slide away from them, and they have to be repaired, renegotiated, and put together. But I was curious just about that in-house process in the final signoff once the package is together, and submitted for approval at SBA, whether it took 1 month or 2, which I suspect might be normal time.

But I did want to ask that. And I am going to ask that regularly. I would like to get some sense. It is a technical area, how our district offices are doing with respect to that.

Maybe you would have a comment from the association point of view.

Mr. **Millikin**. If I may, I wanted to make two points. With respect to our office, I do not think that we have had any projects that have run longer than 10 working days. One I can think of out of 46 or 47 authorizations that we have gotten.

Mr. DAUB. Very quickly.

Mr. MILLIKIN. Very quickly. We are located right across the street from the SBA office. Other people are not so fortunate. They have to travel elsewhere in the district.

But the point I wanted to make is that based on what I know not only in our State but elsewhere, I think that this processing time is coming down. One of the things in fact that I think SBA is doing this week is bringing in their field people to in-house seminars. They are talking about the technical issues.

Mr. DAUB. That is correct.

Mr. MILLIKIN. That is the secret.

Mr. DAUB. We have have problems there, but I wanted to find out if things are working better out there from your point of view. I appreciate it.

Mr. Chairman, that is all. I appreciate your testimony here, gentlemen.

Mr. MITCHELL. We did get a commitment from Mr. Sanders that he was really going to move to expedite the decisionmaking process. I have always maintained, give me a yes or no, I do not care what it is. I do care, but give me an answer rather than string me out for 6 months or 8 months.

Mr. Smith.

Mr. SMITH of Iowa. I want to compliment you for holding these hearings, and the witnesses, too. I think that it is a terribly important area. And I want to welcome Mr. James here from Des Moines.

I would point out that in addition to what he said about unemployment in Iowa, we also have thousands and thousands who never had a job, and they know that there is no use to look for one. They are among the people who leave that we do not count in the 100,000.

So it is terribly important, and you only get a few jobs at a time, but there is no substitute for working on a few jobs. Training is not the only answer. I just talked to some people in my office yesterday that had been trained for computer programing.

They live in Des Moines, and they have the training, but they do not have the jobs. They were told, and I am sure in good faith, go take this course, and then you will get a job. But training does not result in a job unless there are jobs out there. We must have the jobs when we get done.

So it is terribly important. I think in the last year to year and a half, and I want to ask all of you if this is the case, one of the things that has really hurt small businesses in expansion, and in starting up, but I am thinking especially of expansions in those rare instances where a business is able to sell more than they were producing, was not only the rate of interest, but the inability of these small firms to get long-term money to depend on. Is that correct?

Mr. JAMES. That is correct.

Mr. SMITH of Iowa. Of course, I think that we have got to do something about it. We know now that to some extent the reason that interest rates were as high as they were, and that long-term loans were not available, was because big banks were making so many loans overseas. That they could not pump out the money here to the people we are talking about at those interest rates as they were loaning it overseas with no protection at all.

What banker in Iowa or elsewhere would make a long-term loan to a local fellow for 12 percent when he could participate in one of those big loans going to a foreign country at 16 percent, and not be tied up for very long. So the Government by not doing something about those foreign loans helped to get us into this situation.

I do not think that it is too much to give full support to these kinds of programs. I compliment all of you for coming here, and telling us about it.

Mr. DAUB. Mr. Chairman.

Mr. MITCHELL. Sure.

Mr. DAUB. If I might get the gentleman's attention from Iowa, some of those people are coming to Nebraska. I will tell you where some of them are going.

Mr. SMITH of Iowa. Why are they going there, do you have a lot of jobs?

Mr. DAUB. We were just talking about one of the curious things. When we start to look at the whole unemployment thing, and these good programs do help. They are longer range, and they are structurally very helpful, I think, and they are ignored. I think that people do not know how valuable they are.

For example, the Jobs Service in Iowa and the Job Service in Nebraska may have computer training openings, but the two networks are not linked together. The basis of the Unemployment Compensation Fund, even though the Federal Jobs Service funding comes back to each of our States, there is no shared computer access data where indeed that person in Des Moines has another marketable skill that they did not have before, and they may not know where next they might look outside of Des Moines. Because a lot of this stuff is not terminally accessible.

Mr. SMITH of Iowa. There is another problem, of course, with computers being what they are, these big companies are putting their computer only in their central office, and you have got to go there.

Mr. DAUB. Right.

Mr. SMITH of Iowa. Employment is not distributed around. They may have a central office in Omaha, but if the second breadwinner in the family cannot go 500 miles and leave the family it does not help.

Mr. DAUB. Our point was, though, that even at that, with all of the Federal money that goes into the Job Service, and then the unemployment funds in each of our several States, there is not any sharing of that information, if it would work out for that newly trained and unemployed person. It is something that we might look into to see if there is a way.

But then do you know what would happen? Iowa's legislators would say to Nebraska's legislators, wait a minute, we do not want to share our job bank information with Iowa. You would get into that problem.

Mr. SMITH of Iowa. I will tell you we have been down that road several times, and every time we get to about the place where we get everybody linked together, they start hollering about federalizing.

Mr. **Daub**. I know, the compensation side.

Mr. **Smith** of Iowa. The compensation system.

Mr. **Daub**. Thank you, very much.

Mr. **Mitchell**. There may be even a larger problem in terms of some of the other committees of Congress who will say, look, you are beginning to move in on my territory.

Mr. **Daub**. Neal, maybe our people ought to look in Baltimore, though. The terrific UDAG, the Baltimore Harbor, the small business testimony that we heard today might just mean that indeed there are more jobs coming to Baltimore for some of our people in the Midwest who are off the farm now, and cannot find work.

Mr. **Mitchell**. It has been an enormous success in Baltimore. We have had enormous success, and are beginning to use these programs. Even with that, though, with those successes, for the first time in the history of my city, we have joined the top 10 list of having the highest concentrations of poverty. We are on the same list now with Newark. Which simply means that we have to redouble our efforts.

Gentlemen, thank you, very much.

Mr. **James**. Thank you, Mr. Chairman.

Mr. **Mitchell**. Our last panel will consist of Mr. Charles Jones, National Association of Minority Contractors; Mr. Frank Abrams, vice president of the American Specialty Surety Council in Arlington; and Mr. Jere Glover, National Small Business Association in Washington.

Gentlemen, you have been very, very patient in awaiting your time to testify, and we are most appreciative. I would urge you because of the time factor not to try to read your entire testimony.

We have it, and it will appear in the record. It will be beneficial to us if you could go through your testimony, and pick out the 8 or 10 major points that you would like to make. That would be enormously beneficial. We are beginning to fight the clock now.

Yes, sir, would you lead off for us, please.

PANEL CONSISTING OF CHARLES JONES; FRANK ABRAMS; AND JERE GLOVER

TESTIMONY OF CHARLES JONES, GOVERNMENT AFFAIRS CONSULTANT, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

Mr. **Jones**. I am Charles Jones, and I am representing the National Association of Minority Contractors. I am a government affairs consultant. Mr. Thomas is in Los Angeles at the present time attending bonding seminars for minority contractors. I am here to present the testimony here this morning.

Mr. Chairman, and members of the committee, it is a pleasure to appear here before you to provide testimony and recommendations that we believe should be taken under consideration by this committee.

The National Association of Minority Contractors is a nonprofit full service membership association with the primary objective of assisting minority contractors in becoming viable taxpaying businesses in our free enterprise system.

And to summarize some of the comments instead of going into detail, we primarily assist minority contractors in becoming viable. Some of the more specific issues at hand deal with surety bonds under section 4 of H.R. 860. In order to reduce budget levels last year, SBA limited surety bonds and guarantees to a maximum of $250,000.

And they further limited the maximum amount to not more than 25 percent higher than the previously successful completed contract. As of April 2, 1983, SBA eliminated the $250,000 cap, and increased the percentage limitations from 25 percent to 100 percent.

Section 4 of H.R. 860 expressly prohibits SBA from limiting the maximum amount of a bond below the statutory limit, and from utilizing a percentage increase limitation except on a case-by-case basis. Although SBA may have eliminated most of the problem with its April 1 change, nonetheless it can just as easily reverse itself again, and thus the matter should be covered statutorily.

I would like to go over the definition of a surety bond briefly. A surety bond is a guarantee by the surety bonding company that the contractor will satisfy all obligations of the contract.

Moving on, one of the extensive management capabilities and financial support are the specific ingredients required to obtain a surety bond, and therefore a bond is necessary in almost every construction project.

Let me skip to the next page here talking about the collateral issue. Two aspects of the SBA contracting program, the surety bond guarantees and the SBA loan program, should work hand in hand, but clearly they do not. And the equal demands of the surety bond companies and the lending institutions for collateral security causes an impediment under present conditions.

The subordination of all assets present a catch-22 situation. Without a total asset security interest, both parties refuse to move, thereby creating a situation of no bond, no loan, no job, or no loan, or no bond job.

We at the National Association of Minority Contractors feel that within the program mentioned, we recommend that the Government and the private sector can devise something to get the job done.

We offer the following suggestions for your consideration and development. One, we would allow the surety company to have priority, but not complete priority of all assets. Two, limit the collateral available to banks for security to noncurrent assets, allowing such assets as accounts receivables and inventory to be unencumbered. Require all banks using the SBA loan program subordination to surety companies.

Another problem that we identified are the bonding levels. The bonding level was initially set at $500,000 in 1969, and was increased to $1 million in the early 1970's. Since that time, the present level has proven to be inadequate in today's marketplaces.

Our recommendation is that the committee review the adequacy of the present bonding level, taking into consideration the effects of inflation and other relative economic factors with a view toward increasing it.

The bonding data based statistics is another problem identified. And historically, there are no readily available sources of information concerning the performance of the SBA surety bond program.

We recommend that the committee direct SBA to report quarterly on the total performance of the surety bond guarantee program. Substantial statistical data could become a base for banks, surety companies, and industrial publications, et cetera, and legislation to improve the decisionmaking process relating to minorities in the bonding industry.

Another observation was in the OMB Circular 570, the surety companies acceptable on Federal bonds. Each year the Department of Treasury publishes a Department Circular 570. The Department of the Treasury certifies that the list of companies have complied with the law and the regulations of the Treasury Department, and are acceptable as sureties and reinsurers on Federal bonds to the extent and with respect to the localities indicated.

We believe that the criteria for listing companies weighs heavily on the financial strength of such companies. The National Association of Minority Contractors recommends that this committee investigate the criteria for eligibility currently being employed by the Department of Treasury, and incorporate into the eligibility criteria goals for providing bonding to small and minority owned businesses.

Those would have the positive effect of enhancing the bondability of small minority owned businesses, which otherwise would be found to be ineligible for bonding. In many instances, the smaller minority owned businesses are refused bonding by surety companies regardless of track record or financial strength.

In closing, section 4 deals with surety bonds. SBA has, effective April 1, 1983, eliminated the $250,000 cap on surety bond guarantees, and has increased the percentage limitation from 25 percent to 100 percent. This does not, however, prevent SBA from reversing itself.

The observation was that the provision should become statute, and the bond surety guarantees should be determined on a case by case basis rather than have a blanket rule covering every participant in the program.

In conclusion, Mr. Chairman, this concludes our testimony on regulatory recommendations to this committee at this time. We certainly at the National Association of Minority Contractors look forward to continuing our working relationship with you, and will keep our membership and constituency apprised of your progress.

[Mr. Jones' prepared statement follows:]

PREPARED STATEMENT OF CHARLES JONES, GOVERNMENT AFFAIRS CONSULTANT, NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

IT IS A PLEASURE TO APPEAR BEFORE YOU TO PROVIDE TESTIMONY AND RECOMMENDATIONS THAT WE BELIEVE SHOULD BE TAKEN UNDER CONSIDERATION BY THIS COMMITTEE.

THE NATIONAL ASSOCIATION OF MINORITY CONTRACTORS (NAMC) IS A NON-PFORIT, FULL SERVICE MEMBERSHIP ASSOCIATION WITH THE PRIMARY OBJECTIVE OF ASSISTING MINORITY CONTRACTORS IN BECOMING VIABLE, TAX-PAYING BUSINESSES IN OUR FREE ENTERPRISE SYSTEM. MORE SPECIFICALLY:

- TO ACT AS A NATIONAL SPOKESMAN FOR MINORITY CONTRACTORS RELATING TO CURRENT AND PENDING GOVERNMENT REGULATIONS;
- TO FACILITATE THE TRAINING OPPORTUNITIES FOR MINORITY CONTRACTORS IN THE SKILLED CRAFTS OF THE BUILDING INDUSTRY;
- TO ASSIST IN IDENTIFYING AND DEVELOPING TECHNICAL, EDUCATIONAL, MANAGEMENT AND FINANCIAL RESOURCES TO AID MINORITY CONTRACTORS;
- TO ASSIST IN IDENTIFYING RESOURSFS THAT WILL INCREASE THE CAPACITY OF MINORITY CONTRACTORS TO PROCURE AND MANAGE LARGER CONSTRUCTION PROJECTS;

- TO IDENTIFY APPROPRIATE AND VIABLE ASSISTANCE FOR MINORITY BUILDRES IN OBTAINING BONDING, AS WELL AS ACTIVELY INITIATING AND DEVELOPING ALTERNATIVE METHODS TO MEET BONDING/PERFORMANCE PAYMENT REQUIREMENTS; AND
- TO PROVIDE THE STRONG LEADERSHIP NECESSARY TO BRING ABOUT INDUSTRY PARITY FOR MINORITY CONTRACTORS.

MR. CHAIRMAN:

SPECIFIC ISSUES, CONCERNS, AND RECOMMENDATIONS THAT WE WOULD LIKE TO SEE THIS COMMITTEE TAKE UNDER CONSIDERATION ARE AS FOLLOWS:

PROGRAM LEVELS SECTION 4 OF H.R. 860

4. SURETY BONDS - IN ORDER TO REDUCE BUDGET LEVELS, LAST YEAR SBA LIMITED SURETY BOND GUARANTEES TO A MAXIMUM OF $250 THOUSAND (INSTEAD OF THE STATUTORY $1 MILLION) AND FURTHER LIMITED THE MAXIMUM AMOUNT TO NOT MORE THAN 25 PERCENT HIGHER THAN THE PREVIOUSLY SUCCESSFULLY COMPLETED CONTRACT. AS OF APRIL 1, 1983, SBA ELIMINATED THE $250 THOUSAND CAP AND INCREASED THE PERCENTAGE LIMITATION FROM 25 PERCENT TO 100 PERCENT. SECTION 4 EXPRESSLY PROHIBITS SBA (OR SBA UPON INSTRUCTIONS FROM OMB) FROM LIMITING THE MAXIMUM AMOUNT OF A BOND BELOW THE STATUTORY LIMIT AND FROM UTILIZING A PERCENTAGE INCREASE LIMITATION EXCEPT ON A CASE-BY-CASE BASIS. ALTHOUGH SBA MAY HAVE ELIMINATED MOST OF THE PROBLEM WITH ITS APRIL 1ST CHANGE, NONETHELESS IT CAN JUST AS EASILY REVERSE ITSELF AGAIN AND THUS THE MATTER SHOULD BE COVERED STATUTORILY.

BY DEFINITION, A SURETY BOND IS A GUARANTEE BY A SURETY BONDING COMPANY THAT THE CONTRACTOR WILL SATISFY ALL OBLIGATIONS OF THE CONTRACT. THE CONTRACTOR SECURES THIS GUARANTEE BY PLEDGING HIS/HER COMPANY'S LIQUID ASSETS TO THE SURETY COMPANY AS AN INDICATION OF HIS/HER ABILITY TO COMPLETE THE CONTRACT. THE SURETY COMPANY EXAMINES THE CONTRACTOR'S TRACK RECORD AND NET WORTH TO DETERMINE WHETHER THE CONTRACTOR IS A GOOD RISK. IF SO, THE SURETY COMPANY COMMITS ITSELF BY PROVIDING A GUARANTEE IN THE FORM OF A BOND TO THE PROJECT OWNER. THE AMOUNT OF THAT BOND IS USUALLY SOME MULTIPLE OF THE LIQUID ASSETS OF THE CONTRACTOR. NATURALLY, THE LARGER THE CONTRACT, THE GREATER THE RISK TO THE SURETY COMPANY. THE SURETY, THEREFORE, REQUIRES THE CONTRACTOR TO PLEDGE MORE MONEY AND PROVE MORE EXPERIENCE.

EXTENSIVE MANAGEMENT CAPABILITY AND FINANCIAL SUPPORT ARE THE SPECIFIC INGREDIENTS REQUIRED TO OBTAIN A SURETY BOND. THIS BOND IS NECESSARY ON ALMOST EVERY CONSTRUCTION PROJECT.

SINCE 1970 THE SURETY BOND GUARANTEE PROGRAM HAS BEEN THE LIFELINE FOR MANY SMALL AND GROWING MINORITY CONSTRUCTION CONTRACTORS. THE BENEFITS DERIVED BY GOVERNMENT INVOLVEMENT CAN BE CLEARLY MEASURED BY THE AMERICAN TAX PAYER, THE SMALL BUSINESS COMMUNITY AND THE PRIVATE SECTOR.

IN ADDITION TO ALL THE BENEFITS DERIVED FROM THE SURETY BOND GUARANTEE PROGRAM WE OFFER THE FOLLOWING PROPOSED RECOMMENDATIONS FOR YOUR CONSIDERATION.

PROBLEM: COLLATERAL

TWO ASPECTS OF THE SBA CONTRACTING PROGRAM, SURETY BOND GUARANTEE AND THE GUARANTEE LOAN PROGRAM, SHOULD WORK HAND IN HAND; BUT CLEARLY THEY DO NOT. THE EQUAL DEMANDS TO THE SURETY BOND COMPANIES AND THE LENDING INSTITUTIONS FOR COLLATERAL SECURITY CAUSES AN IMPEDIMENT UNDER PRESENT CONDITIONS. THE SUBORDINATION OF ALL ASSETS PRESENT A "CATCH TWENTY-TWO" SITUATION. WITHOUT A TOTAL ASSET SECURITY INTEREST, BOTH PARTIES REFUSE TO MOVE, THEREBY CREATING THE SITUATION OF NO BOND, NO LOAN, NO JOB, OR NO LOAN, NO BOND JOB.

RECOMMENDATION:

WE FEEL THAT WITHIN THE PROGRAMS MENTIONED, THE GOVERNMENT AND PRIVATE SECTOR CAN DEVISE SOMETHING TO GET THE JOB DONE. WE OFFER THE FOLLOWING SUGGESTIONS FOR CONSIDERATION AND DEVELOPMENT.

1. ALLOW THE SURETY COMPANY TO HAVE PRIORITY BUT NOT COMPLETE PRIORITY ON ALL ASSETS.
2. LIMIT COLLATERAL AVAILABLE TO BANKS FOR SECURITY, TO NON CURRENT ASSETS, ALLOWING SUCH ASSETS AS ACCOUNTS RECEIVABLES AND INVENTORY TO BE UNINCUMBERED.
3. REQUIRE ALL BANKS USING THE SBA GUARANTEE LOAN PROGRAM SUBORDINATION TO SURETY COMPANIES.

PROBLEM: BONDING LEVEL

THE BONDING LEVEL WAS INITIALLY SET AT $500,000 IN 1969

AND WAS INCREASED TO ONE MILLION DOLLARS IN THE EARLY 70'S. SINCE THAT TIME THE PRESENT LEVEL HAS PROVEN TO BE INADEQUATE IN TODAY'S MARKET PLACES.

RECOMMENDATION:

THAT THE COMMITTEE REVIEW THE ADEQUACY OF THE PRESENT BONDING LEVEL, TAKING INTO CONSIDERATION THE EFFECTS OF INFLATION AND OTHER RELEVANT ECONOMIC FACTORS, WITH A VIEW TOWARD INCREASING IT.

PROBLEM: BONDING DATA BASE STATISTICS

THERE ARE NO READILY AVAILABLE SOURCES OF INFORMATION CONCERING THE PERFORMANCE OF SBA SURETY BOND GUARANTEE PROGRAM.

RECOMMENDATION:

THAT THIS COMMITTEE DIRECT SBA TO REPORT QUATERLY ON THE TOTAL PERFORMANCE OF THE SURETY BOND GUARANTEE PROGRAM. SUBSTANTIAL STATISTICAL DATA COULD BECOME A BASE FOR BANKS, SURETY COMPANIES, INDUSTRY PUBLICATIONS (ENR, ETC.,), AND LEGISLATORS TO IMPROVE THE DECISION MAKING PROCESS RELATING TO MINORITIES AND THE BONDING INDUSTRY.

OMB CIRCULAR 570 (SURETY COMPANIES ACCEPTABLE ON FEDERAL BONDS

EACH YEAR THE DEPARTMENT OF THE TREASURY PUBLISHED DEPARTMENT CIRCULAR 570 (COMPANIES HOLDING CERTIFICATES OF AUTHORITY AS ACCEPTABLE SURETIES ON FEDERAL BONDS AND AS ACCEPTABLE REINSURING COMPANIES). THE DEPARTMENT OF THE TREASURY CERTIFIES THAT THE LISTED COMPANIES HAVE COMPLIED WITH THE LAW AND THE REGULATIONS OF THE

TREASURY DEPARTMENT AND ARE ACCEPTABLE AS SURETIES AND REINSURERS ON FEDERAL BONDS, TO THE EXTEND AND WITH RESPECT TO THE LOCALITIES INDICATED. WE BELIEVE THE CRITERIA FOR LISTING COMPANIES WEIGHS HEAVILY ON THE FINANCIAL STRENGTH OF SUCH COMPANIES. NAMC RECOMMENDS THAT THIS COMMITTEE INVESTIGATE THE CRITERIA FOR ELIGIBILITY CURRENTLY BEING EMPLOYED BY THE DEPARTMENT OF TREASURY, AND HAVE INCORPORATED INTO THE ELIGIBILITY CRITERIA GOALS FOR PROVIDING BONDING TO SMALL AND MINORITY OWNED BUSINESSES. GOALS WOULD HAVE THE POSITIVE EFFECT OF ENHANCING THE BONDABILITY OF SMALL AND MINORITY OWNED BUSINESSES WHO WOULD OTHERWISE BE FOUND TO BE INELIGIBLE FOR BONDING. IN MANY INSTANCES, SMALL AND MINORITY OWNED BUSINESSES ARE REFUSED BONDING BY SURETIES REGARDLESS OF TRACK RECORD OR FINANCIAL STRENGTH.

CLOSING REMARKS (SECTION 4):

SECTION 4 DEALS WITH SURETY BONDS - SBA HAS, EFFECTIVE APRIL 1, 1983, ELIMINATED THE $250 THOUSAND CAP ON SURETY BOND GUARANTEES AND INCREASED THE PERCENTAGE LIMITATION FROM 25 PERCENT TO 100 PERCENT (HIGHER THAN THE PREVISOULY SUCCESSFULLY COMPLETED CONTRACT). THIS DOES NOT HOWEVER, PREVENT SBA FROM REVERSING IT-SELF.

OBSERVATION: THIS PROVISION SHOULD BECOME STATUTE, AND THE BOND SURETY GUARANTEE SHOULD BE DETERMINED ON A CASE BY CASE BASIS RATHER THAN HAVE A BLANKET RULE COVER EVERY PARTICIPANT IN THE PROGRAM.

SECTION 13 OF H.R. 860

13. SIZE STANDARDS - SBA MAINTAINS THAT PROMULGATION OF RULES AND REGULATIONS REGARDING SIZE STANDARDS IS NOT MANDATORY UNDER THE ADMINISTRATIVE PROCEDURE ACT BUT THEY HAVE VOLUNTARILY BROUGHT THEMSELVES UNDER THE ACT. THE LAST TIME THE PROMULGATED A COMPLETE REVISION OF SIZE STANDARDS THEY DID FOLLOW THE APA. THEY HAVE ASSERTED ON SEVERAL OCCASIONS THAT THEY NEED NOT HAVE DONE SO AND IT WOULD SEEM PRUDENT TO ELIMINATE THE POSSIBILITY OF THEIR DOING SO. SECTION 15 EXPRESSLY MANDATES THAT ANY SIZE STANDARD CHANGES BE IN ACCORDANCE WITH THE ADMINISTRATIVE PROCEDURE ACT.

OVERSIGHT RESPONSIBILITIES - U.S. SMALL BUSINESS ADMINISTRATION - SBA SIZE STANDARDS - SBA WILL BE PUBLISHING IN THE NEAR FUTURE PROPOSED REGULATIONS ON SIZE STANDARDS. OUR MEMBERSHIP AND CONSTITUENCY WILL BE ON THE ALERT FOR THESE NEW PROPOSED REGULATIONS. WE ASK THAT THIS COMMITTEE CONDUCT AN IN-DEPTH REVIEW OF THE PROPOSED REGULATIONS AND TAKE WHATEVER ACTION DEEMED APPROPRIATE TO ASSURE THE SMALL BUSINESS COMMUNITY THAT THE REGULATIONS PROPOSED ARE FAIR AND EQUITABLE. AS WRITTEN, MANY SMALL BUSINESSES WILL OVERNIGHT BECOME LARGE BUSINESSES, AND FIND THEY ARE NO LONGER ELIGIBLE FOR SMALL BUSINESS PROCUREMENT OPPORTUNITIES FROM THE FEDERAL SECTOR, OR OTHER SMALL BUSINESS ASSISTANCE SUCH AS SBA GUARANTEED LOANS, ETC. THIS WILL BE DEVASTATING AND FATAL TO SMALL BUSINESSES DURING THE CURRENT ECONOMIC CRISIS WHICH PREVAILS THROUGHOUT THE COUNTRY. OUR ASSOCIATION BELIEVES THAT THE CURRENT SIZE STANDARDS SHOULD REMAIN AS WRITTEN UNTIL AT LEAST THE ECONOMIC CONDITIONS OF THE COUNTRY IMPROVE.

SIZE STANDARDS AND SECTION 8(A) FIRMS

SECTION 8(A) FIRMS ARE BEING MEASURED FOR THEIR SIZE AGAINST THE EXISTING SBA SIZE STANDARDS. ALL SECTION 8(A) RECEIPTS ARE COUNTED ALONG WITH NON-8(A) RECEIPTS IN DETERMINING WHETHER AN 8(A) FIRM IS LARGE OR SMALL. NAMC STRONGLY BELIEVES THAT THE SBA SHOULD CHANGE ITS REGULATIONS TO EXCLUDE 8(A) RECEIPTS, OR A PORTION THEREOF, FROM BEING COUNTED IN THIS SIZE DETERMINATION. CURRENTLY, AN 8(A) FIRM CAN BE DETERMINED TO BE BIG BUSINESS BASED ON 8(A) CONTRACT RECEIPTS ONLY, FURTHER 8(A) CONTRACTING STOPPED; AND THE FIRM REMOVED FROM THE 8(A) PROGRAM IMMEDIATELY. SUCH A FIRM WOULD IMMEDIATELY HAVE TO COMPETE WITH BIG BUSINESSES IN ORDER TO EXIST AS A VIABLE BUSINESS. IN THIS INSTANCE, THE 8(A) PROGRAM WHICH PROVIDED CONTRACTS TO ASSIST A MINORITY OWNED BUSINESS, IS HAMPERED IN ITS EFFORTS TO DEVELOP THE FIRM AS A VIABLE BUSINESS ENTITY AS MANDATED BY P.L. 95-507, BECAUSE OF THE FULL APPLICATION OF THE SBA SIZE STANDARDS ON THE 8(A) FIRM. WE ASK THAT THIS COMMITTEE INTERCEDE IN BEHALF OF MINORITY OWNED BUSINESSES PARTICIPATING IN THE 8(A) PROGRAM, AND REVIEW THE POSSIBILITY OF OUR RECOMMENDATION BEING IMPLEMENTED AT THE SMALL BUSINESS ADMINISTRATION.

CLOSING REMARKS (SECTION 13):

SECTION 13 DEALS WITH SIZE STANDARD. SBA, ACCORDING TO THIS SECTION OF THE BILLS, SHOULD BE REQUIRED BY STATUTE TO PROMULGATE RUES ON SIZE STANDARD UNDER THE ADMINISTRATIVE PROCEDURES ACT. SBA HAS VOLUNTARILY BROUGHT THEMSELVES UNDER THE APA REGARDING SIZE STANDARDS, BUT MAINTAINS THAT THIS IS NOT MANDATORY.

OBSERVATION: THE PROVISION SHOULD BE COVERED BY STATUTE ALSO, AND AGAIN, NAMC SHOULD ADDRESS THE ISSUE OF DETERMINING SIZE STANDARDS BY BASING SIZE ON A FIRM'S ANNUAL GROSS RECEIPTS BOTH 8(A) AND NON 8(A). THIS DETERMINATION SHOULD BE BASED ONLY UPON 8(A) RECEIPT OR IF 8(A) RECEIPTS ARE GOING TO BE INCLUDED, THEN ONLY A PORTION SHOULD BE INCLUDED, CERTAINLY NOT OVER 25 PERCENT.

CONCLUSION:

MR. CHAIRMAN:

THIS CONCLUDES OUR TESTIMONY AND REGULATORY RECOMMENDATIONS TO THIS COMMITTEE AT THIS TIME. WE LOOK FORWARD TO CONTINUING OUR WORKING RELATIONSHIP WITH YOU AND WILL KEEP OUR MEMBERSHIP AND CONSTITUENCY APPRISED OF YOUR PROGRESS.

IF YOU OR THE MEMBERS OF THIS COMMITTEE HAVE FURTHER QUESTIONS, I WOULD BE HAPPY TO ANSWER THEM.

Mr. **JONES**. In regard to questions, I will receive questions, and will forward these questions to Mr. Dewey Thomas, the director, for comment and reply. We will then submit those for the record.

Mr. **MITCHELL**. I had hoped that you would do that, because you are merely presenting the testimony for him. I think that it would be unfair to try to question you, because you are merely a presenter. I am certain that he has worked on aspects of this that you have not seen.

Mr. **JONES**. Exactly.

Mr. **MITCHELL**. I think if that is convenient with the other members of the committee, that is fine with me.

Mr. **JONES**. Thank you.

Mr. **MITCHELL**. It is good to see you again, sir.

Mr. **JONES**. Thank you, very much.

Mr. **MITCHELL**. Please proceed.

TESTIMONY OF FRANK ABRAMS, VICE PRESIDENT, AMERICAN SPECIALTY SURETY COUNCIL

Mr. **ABRAMS**. Mr. Chairman, my name is Frank Abrams, and I am the vice president of the American Specialty Surety Council. TASSC is an association which unites specialty surety companies, their agents, and that part of the legal community that services the companies and the agents. John Magnotti, who is the executive vice president, is accompanying me.

For the past 2 years, the Small Business Administration has been required to take a series of measures designed to restrict bonding under the Surety Bond Guaranty program below those limits established by Congress.

This program was, of course, not alone in being severely cut by the administration's efforts to reduce overall Government spending, but because of the speed and the intensity of the budget reduction program, policy changes were in some cases made so rapidly that a whipsaw action was created which neither the contractors nor the special sureties nor the agents were quite sure what the rules of the game were at any given moment.

As a complicating factor, the Office of Management and Budget reduced the amount of the guarantee authority as specified by the Congress at 10 percent. The net result of the policy actions by the SBA has been that even the reduced guarantee authority has been underutilized by between 40 and 50 percent.

Unfortunately, when Government programs are cut severely, the real losers are in most cases not identifiable. How, for example, can we know how many small minority businessmen were unable to compete on contracts, or were not able to begin a legitimate small business because of an inability to find bonding. Our sense is that there are many.

The basic SBG program is designed to assist small and minority businessmen. Therefore, all of the players must recognize that the same set of business standards cannot be applied to small and minority businesses as are applied to large businesses.

Large businesses have trained management, and extensive financial and material resources, and long histories of performance which can be examined by the bonding companies. This is not the case with small businesses, and particularly those in the construction industry.

Mr. Chairman, if I could profile our particular client for you, I would describe an individual who is long on ambition and entrepreneurial enthusiasm, and in most cases with good technical ability. Most of these individuals have little or no business training, and find that obtaining proper financial advice and assistance is very time consuming and a very costly exercise.

In our view therefore, it makes little sense to approach bonding of this group of individuals in the same manner that we might approach bonding with a larger well-established construction firm.

Under no circumstances, are we suggesting that the SGB program should not make every effort to graduate these small contractors just as soon as their financial position and ability to compete makes his graduation possible.

But until this occurs, however, we as the experts should be using our training and experience to devise a program which does assist the entire target group, and at the same time provide sufficient controls to insure that Government money is being well and wisely spent.

For these reasons, we agree wholeheartedly with the legislation being proposed here today, particularly those provisions contained in H.R. 860 dealing with the SBG program. We carefully analyzed these provisions, and we enthusiastically support the proposition that the Congress not only has the right but duty to insure that the guarantee authority contained is used completely to support the legitimate programs and goals enunciated by Congress.

With the foundation laid in H.R. 860, we would like to propose additional provisions which would lend even more effectiveness to the program. First, we believe that legislation now moving through the congressional process to decrease unemployment is going to have an explosive impact on the construction industry, which will in turn create an explosive demand for bonding.

To the credit of the SBA, steps have already been taken to ease the administrative and financial requirements imposed on small minority firms. This in itself will tend to increase the utilization of the guarantee authority.

Given these circumstances, the demand for bonding might escalate even beyond the guarantee authority proposed in H.R. 860. To make certain that we remain well ahead of the expected demand curve, I would like to suggest that you consider including a rollover provision in the bill.

Such a provision would provide for reuse of guarantee authority released after the completion of successful contracts. Although it might be argued statistically that this proposal might increase the exposure, it seems to us to be more important in the interests of providing opportunities for small and minority businessmen that sufficient guarantee authority be available to handle the expected demand.

Second, the SBA has for some time been trying to create a more flexible approach in its dealings with surety companies. A more flexible approach to dealing with surety companies would reduce the administrative requirements substantially by allowing more sophisticated companies to operate with less supervision than others.

Unfortunately, the criteria that has been used is based on the lowest common denominator of the companies that are in the program. All that is required to be in the program is to be listed on the Treasury list.

The American Specialty Surety Council, in response to a proposal by the SBA, offered a counterproposal acceptable to the companies that are involved, which would create a flexible program with sufficient controls to insure proper supervision by Government managers.

I have attached a copy of our proposal with our comments on the SBG proposal with this testimony for inclusion in the record of hearings. Adoption of the TASSC proposal would in our opinion streamline the SBG program during a period of increasing demand, and increase its overall efficiency.

Third, I would like to make one comment about the overall administration of the program. I am not sure that this problem is able to be solved readily by the Congress, but I feel that it is serious enough to be made part of this hearing record.

The problem is consistency in administration of the program throughout the 10 regions. Despite the best efforts of the Office of Special Guarantees of the SBA, inconsistencies in the application of legislation continues to crop up and plague the program through differing interpretations of the legislation and regulations.

In some regions, officials exercise almost a warlord mentality, and frustrate the efforts of the Office of Special Guarantees to maintain a uniform and understandable approach to the SBG program.

Uniformity is particularly important in this program, since it is in our view one of the finest examples of Government-industry cooperation. And surety companies in many cases operate on a national basis.

Further, both agents and firms are confused in many instances by the rapid changes in policy due to interpretations at regional or even local levels. The solution to this problem might be a post of duty approach where the national office assumes full administrative responsibility for surety bond guarantee employees nationwide.

Under the current circumstances, these individuals report to regional directors, and are therefore insulated from direct control and coordination by the Office of Special Guarantees. We recommend that Congress express itself in favor of tighter management in this regard, and at least resolve that centralized management in this instance might well be in the best interests of both the Government and the small contractors involved in the program.

Finally, Mr. Chairman, I hope that our testimony does not give you the impression that we are pessimistic about the program. On the contrary, we feel that it is one of the best programs created by Congress. And as I said previously, it is an excellent example of the Government and industry working hand in hand to help small and minority businesses establish themselves as effective members of the business community.

As an organization, we have instituted programs on our own to assist this important process. For example, in discussions with staff members of your committee, we have offered as an organization to meet with minority and other small business contractor associations to organize seminars in which bonding procedures will be carefully explained, and individual contractors assisted in finding appropriate bonding.

During these same discussions, we have offered to establish a hotline directly to our TASSC headquarters for the express purpose of finding bonding for contractors who are unable to locate agents, or have been refused bonding by individual agents in any part of the country.

We believe in this program, Mr. Chairman, and we are willing to do everything in our power to make it successful.

In summary, we are pleased to have been asked to testify at these hearings, and we recommend strongly that H.R 860 and 2132 be adopted as written. Further, that the additional provisions proposed by TASSC be included in the legislation.

We are prepared to answer any questions that you or members of the committee might have.

[Mr. Abrams' prepared statement with attachment follows:]

PREPARED STATEMENT OF FRANK ABRAMS, VICE PRESIDENT, AMERICAN SPECIALTY SURETY COUNCIL

Mr. Chairman, my name is Frank Abrams, and I am a vice president of the American Specialty Surety Council. TASSC is an association which unites specialty companies, their agents and that part of the legal community which supports specialty surety firms and agents. John Magnotti, TASSC executive vice president, is accompanying me.

For the past two years, the Small Business Administration had been required to take a series of measures designed to restrict bonding under the surety bond guarantee program below those limits established by Congress. This program was, of course, not alone in being severely cut by the Administration's efforts to reduce overall Government spending.

Because of the speed and intensity of the budget reduction program, policy changes were in some cases made so rapidly that a whipsaw action was created in which neither contractors, specialty sureties, nor agents were quite sure what the rules of the game were at any given moment. As a complicating factor, the Office of Management and Budget reduced the amount of guarantee authority as specified by the Congress by 10 percent. The net result of the policy actions in the SBA has been that even the reduced guarantee authority has been underutilized by between 40 and 50 percent.

Unfortunately, when Government programs are cut severely, the real losers are, in most cases, not identifiable. How can we, for example, know how many small and minority businessmen were unable to compete on contracts or were unable to begin a legitimate small business because of an inability to find bonding? Our sense is that there are many.

The basic SBG program is designed to assist small and minority businessmen. Therefore, all of the players must recognize that the same set of business standards cannot be applied to small and minority businesses as are applied to large businesses. Large businesses have trained management, extensive financial and material resources, and long histories of performance which can be examined by bonding companies. This is not the case with small businesses, particularly those in the construction industry.

If I could profile our typical client, Mr. Chairman, I would describe an individual who is long on ambition, entrepreneurial enthusiasm, and in most cases, good technical abilities. Most of these individuals have little or no business training and find that obtaining proper financial advice and assistance is a time-consuming and very costly exercise. In our view, therefore, it makes little sense to approach bonding this group of individuals in the same manner that we might approach bonding a larger, well-established construction firm.

Under no circumstances are we suggesting that the SBG program should not make every effort to graduate these small contractors just as soon as their financial position and ability to compete make this graduation possible. Until this occurs, however, we as the experts should be using our training and experience to devise a program which does assist the entire target group and at the same time provide sufficient controls to insure that Government money is being well, and wisely, spent.

For these reasons, we agree wholeheartedly with the legislation being proposed here today, particularly those provisions contained in H.R. 860 dealing with the SBG program. We have carefully analyzed these provisions and enthusiastically support the proposition that the Congress not only has the right, but the duty, to insure that the guarantee authority contained in appropriate legislation is used completely to support the legitimate programs and goals enunciated by the Congress.

With the foundation laid in H.R. 860, we would like to propose additional provisions which would lend even more effectiveness to the SBG program.

First, we believe that the legislation now moving through the congressional process to decrease unemployment will have an explosive impact on the construction industry, which will, in turn, create an explosive demand for bonding. To the credit of the SBA, steps have been taken recently to ease the administrative and financial requirements imposed upon small and minority firms seeking bonding under the SBG program. This in itself will tend to increase utilization of the sagging guarantee authority.

Given these circumstances, the demand for bonding might escalate even beyond the guarantee authority proposed in H.R. 860 and 2132. To make certain that we remain well ahead of the expected demand curve, I would like to suggest that you consider including a "rollover" provision in the bill. Such a provision would provide for reuse of guarantee authority released after the completion of successful contracts. Although it might be argued statistically that this proposal might increase the exposure, and thus increase the actual loss, it seems to us to be more important in the interests of providing opportunities for small and minority businessmen that sufficient guarantee authority be available to handle the expected demand.

Second, the SBA has for some time been trying to create a more flexible approach in its dealings with surety companies. Under current legislation, the only requirement for participation by a surety company is inclusion on the Treasury list of approved companies. Although the requirements stated in appropriate legislation and regulations are being followed carefully by the Treasury Department in approving companies for inclusion on the list, all companies are not the same. Administrative requirements for companies in the program are designed for the lowest common denominator. A more flexible approach to dealing with surety companies would reduce administrative requirements substantially by allowing more sophisticated companies to operate with less supervision than others. The result would be increased progam efficiency.

The American Specialty Surety Council, in response to a proposal by the SBA, offered a counterproposal acceptable to the companies involved which would create a flexible program with sufficient controls to insure proper supervision by Government managers. I have attached a copy of our proposal with this testimony for inclusion in the record of hearings, should you so desire. Adoption of the TASSC proposal would, in our opinion, streamline the SBG program during a period of increasing demand and increase its overall efficiency.

Third, I would like to make one comment about the overall administration of the program. I am not sure that this problem can be solved readily by the Congress, but I feel that it is serious enough to be made part of this hearing record. The problem is consistency in administration of the program throughout the 10 regions. Despite the best efforts of the Office of Special Guarantees in the SBA, inconsistencies in the application of the legislation continue to crop up and plague the program through differing "interpretations" of the legislation and regulations. In some regions, officials exercise almost a "warlord mentality" and frustrate the efforts of the office of special guarantees to maintain a uniform understandable approach to the SBG program. Uniformity is particularly important in this program since it is in our view one of the finest examples of Government-industry cooperation, and surety companies in many cases operate on a national basis. Further, both agents and firms are confused in many instances by rapid changes in policy due to interpretations at regional or even local levels.

A solution to this problem is a post-of-duty approach, where the national office assumes full administrative responsibility for surety bond guarantee employees nationwide. Under the current circumstances, these individuals report to regional directors and, therefore, are insulated from direct control and coordination by the Office of Special Guarantees. We recommend that the Congress express itself in favor of tighter management in this regard and at the least resolve that centralized management in this instance might well be in the best interests of both the Government and the small contractors involved in the program.

Finally, Mr. Chairman, I hope that our testimony does not give you the impression that we are pessimistic about the program. On the contrary, we feel that it is one of the best programs created by the Congress, and as I said previously, an excellent example of Government and industry working hand in hand to help small and minority businesses establish themselves as effective members of the business community. As an organization, we have instituted programs on our own to assist this important process. For example, in discussions with staff members from your committee, we have offered as an organization to meet with minority and other small business contractor associations to organize seminars in which bonding procedures will be carefully explained and individual contractors assisted in finding appropriate bonding. During these same discussions, we have also offered to establish a "hot line" directly to TASSC headquarters for the express purpose of finding bonding for contractors who are unable to locate agents or who have been refused bonding by individual agents in any part of the country. We believe in this program, Mr. Chairman, and we are willing to do everything in our power to make it successful.

In summary, Mr. Chairman, we are pleased to have been asked to testify at these hearings. We recommend strongly that H.R. 860 and 2132 be adopted as written, and further, that the additional provisions proposed by TASSC be included in the legislation.

We are prepared to answer any questions that you or any other members of the subcommittee might have.

Thank you.

ATTACHMENT

TASSC

THE AMERICAN
SPECIALTY SURETY COUNCIL

1001 N. Highland Street, Suite 101, Arlington, Virginia 22201 • 703/528-0072

PROPOSED
SURETY BOND GUARANTEE AGREEMENT

PRESENTED BY
THE AMERICAN SPECIALTY SURETY COUNCIL
DECEMBER 14, 1982

SURETY BOND GUARANTEE AGREEMENT

The Small Business Administration, an Agency of the United States of America, hereinafter called SBA, is authorized by Part B of Title IV of the Small Business Investment Act of 1958 [15 U.S.C. §694a and b] to guarantee, upon such varying terms and conditions as it may prescribe, any surety against loss resulting from a breach of the terms of a bid bond, payment bond, performance bond or bonds ancillary and coterminous therewith, by a principal on any contract up to $1,000,000.00 in face value.

______________________, hereinafter called Surety, is a commercial surety which has been determined by SBA to be eligible to participate in the Surety Bond Guarantee Program in accordance with 13 CFR Part 115 and desires to obtain SBA guarantees on bonds it would not issue without an SBA Guarantee.

In consideration of the mutual benefits to be derived from this Agreement, SBA and the Surety agree as follows:

ARTICLE I

APPLICATION, APPROVAL OR DECLINE

Surety's applications for guarantees of bonds shall be written upon forms prescribed by SBA and shall be submitted to SBA field offices having delegated authority as published in 13 CFR Part 101. SBA's field office will promptly approve or decline an application for the SBA guarantee, and will so notify Surety. The terms and provisions of this Agreement shall govern, and control over all inconsistent provisions in, any guarantee agreement executed by SBA during the term of this Agreement.

ARTICLE II

THE SURETY'S REPRESENTATIVES

SBA shall accept applications for guarantees only from persons empowered by Surety in writing to act for Surety in executing bonds on its behalf. Surety agrees to furnish to SBA (Attention: Director, Office of Special Guarantees) annually, but not later than April 30th of each year hereafter, a list of all active representatives empowered to act for Surety with true copies of the written powers including any limitations thereon. Such list may be amended by Surety, from time to time, by written notice to the SBA Office of Special Guarantees.

ARTICLE III

SURETY'S REPRESENTATIONS

Surety's delivery of an application to SBA for guarantee of a specific bond or bonds shall constitute a representation by Surety, effective as of the time of delivery of the application and as of the time of the execution of the bond(s):

(a) that, information furnished in its own behalf is accurate and complete;

(b) that, to the best of its information and belief, material representations made by the principal-applicant for such bond are accurate and complete;

(c) that, Surety's recommendation and request for approval of the bond guarantee was formulated in accordance with the surety industry's general underwriting practices, taking the SBA Guarantee into consideration;

(d) that, to the best of Surety's information and belief:

(1) the principal-applicant on the bond is a small business concern as defined by 13 CFR Part 121;

(2) the bond is required to bid on a contract, or to serve as prime contractor or subcontractor thereon;

(3) the principal-applicant is not able to obtain such bond on reasonable terms and conditions without an SBA guarantee;

(4) there is a reasonable expectation that the principal-applicant will perform the contract with respect to which the bond is required;

(5) the contract meets any minimum requirements as may be established, from time to time, by SBA for feasibility of successful completion and reasonableness of cost;

(6) the terms and conditions of the bond are reasonable in light of the risks involved; and

(e) that, the total contract amount, of the contract with respect to which the bond is required, at the time of the execution of the bond or bonds does not exceed $1,000,000.00.

SBA may rely upon such representations in formulating its decision to guarantee a bond, but if it should be shown that the representations by Surety were false, inaccurate, or misleading when made, SBA shall be relieved of its obligations on such guarantee only upon a showing that it has been prejudiced thereby, and that such falsehood, inaccuracy, or misleading matter constituted fraud or a material misrepresentation by Surety.

ARTICLE IV

SBA'S DEFENSES

SBA shall be relieved of all liability on a guarantee agreement if:

(1) Surety obtained the guarantee in question or applied for reimbursement under the guarantee by fraud or material misrepresentation. Material misrepresentation includes both the intentional making by Surety of untrue statements of material facts and the intentional omission of statements of material facts necessary to make the statements not misleading in light of the circumstances under which they were made.

(2) the total contract amount, of the contract with respect to which the bond is required, at the time of execution of the bond or bonds exceeds $1,000,000.00.

ARTICLE V

GUARANTEE FEES AND SURETY BOND PREMIUMS

(a) SBA charge to applicant. No application fee and no bid bond guarantee fee will be charged by SBA. Upon the execution by Surety of a bond or bonds which SBA is guaranteeing, the principal-applicant shall pay SBA a guarantee fee of $5.00 per thousand of the contract amount.

(b) SBA charge to Surety. Surety shall pay SBA a guarantee fee equal to twenty percent (20%) of the bond premium. If there is a subsequent increase in the contract amount or an increase in the face amount of the bond, Surety will remit to SBA a supplemental guarantee fee of twenty percent (20%) of the additional premium charged and collected. If the contract amount and bond amount are reduced, SBA will refund twenty percent (20%) of the premium reduction. Premium adjustments in favor of SBA or Surety which do not amount to more than $100.00 are to be disregarded.

(c) Surety bond premiums. SBA will deem acceptable a bond premium charged by the Surety to a principal-applicant which is based upon:

(1) Rates listed in the "Contract Bonds" section of the "Rating Manual" issued by the Surety Association of America; or

(2) Rates greater than "Rating Manual" rates if these premium rates have been authorized by the appropriate State Insurance Department; or

(3) A minimum bond premium regardless of the contract price, if this minimum charge does not exceed $50.00 and has been authorized by the appropriate State Insurance Department.

(d) Non-premium charges. SBA will not approve an application for a bond guarantee where Surety makes any charge above the acceptable premium for the bond, except one time "set-up" fees or where other services are performed for the principal-applicant and the additional charge or fee is permitted by the appropriate State Insurance Department. SBA shall not receive any portion of any non-premium charges.

ARTICLE VI

THE GUARANTEE

For each SBA guarantee approved pursuant to this Agreement SBA shall reimburse Surety ____% of the Loss, as defined herein, which Surety sustains and pays as a result of a breach by the principal of the terms of a bid bond, payment bond, performance bond or bond ancillary and coterminous therewith or in connection with any other guaranteed bond executed by Surety for the same principal.

"Loss" shall have the following meanings:

(a) such amounts as are actually paid by the Surety in settlement, compromise or mitigation of claims, suits, or proceedings, in the performance of Surety's obligations, or in satisfaction of judgments, suits or awards arising out of Surety's obligations under the guaranteed bond(s); and

(b) expenses specifically allocable to the investigation, adjustment, negotiation, settlement of or resistance (including court costs and fees and expenses of attorneys, experts and consultants retained by Surety) to any claim for loss resulting from the breach of the terms of any guaranteed bond, but excluding all office expense, all employment costs pertaining to permanent employees (other than allocated travel or related expenses incurred by employees of Surety), and all other internal expenses of Surety. Expenses paid by Surety to "affiliated" persons or entities will not be reimbursed by SBA. The word "affiliated" shall have the meaning defined presently set forth in 13 CFR §121.3-2(a).

(c) "Loss" shall not include attorney's fees and court costs incurred by a Surety in a suit by or against SBA or its Administrator.

ARTICLE VII

DEDUCTIBLE AMOUNT

SBA's agreed percentage of Loss payment shall commence after the Surety has incurred and paid the lesser of (1) the first $500.00 of Loss or (2) the amount of bond premium as reduced by the guarantee fee.

ARTICLE VIII

WITHDRAWAL OF GUARANTEE AGREEMENT

SBA may, for good cause, withdraw its guarantee or commitment to guarantee on a given bond upon notice to the office of the Surety or its representative submitting a guarantee application prior to the execution of such bond. Such notice shall be given in such a manner as to reasonably allow the Surety to prevent the inadvertent execution or delivery of such bond; otherwise, the SBA shall be bound on its agreement by the execution and/or delivery of such bond. The withdrawal of a guarantee or commitment to guarantee shall be ineffective to relieve SBA of liability to Surety on any other bond which the guarantee has not been effectively withdrawn. In the event that Surety shall suffer any loss, cost, or expense by virtue of a claim by a third party arising out of, or as a consequence of, the withdrawal or attempted withdrawal of a guarantee, SBA shall reimburse Surety for such loss, cost or expense in the same percentage as is set forth in Article VI hereof.

ARTICLE IX

PROHIBITED ACTIONS

Surety shall not, without SBA's prior written consent, (a) subsequent to the execution of a bond, agree, in writing, to any material alteration in the terms, conditions or provisions of the contract or bond, excluding an increase in bond liability less than 20% of the original liability; (b) name as an obligee on the bond any party, other than a governmental or quasi-governmental agency, including lenders to the original obligee on such bond, which is not bound to the principal to the same extent as the original obligee; (c) execute the bond after the date the work under the contract has actually begun, provided Surety has actual knowledge that such work has begun.

ARTICLE X

CLAIMS

Surety agrees that it will investigate and will settle or defend all claims arising under bonds which the SBA has guaranteed, and that it will give prompt notice to SBA of any event or development which, in the judgment of the Surety, is expected to result in a claim under a Guarantee Agreement. Unless SBA shall, within thirty (30) calendar days of its receipt from Surety of such a notice, request that SBA undertake or participate in the investigation, settlement or defense of claims, Surety shall continue to investigate, settle, and defend all such claims.

All settlements, compromises and payments of losses and expenses made by Surety, provided that they are within the terms, conditions and limits of the bonds, and within the terms, conditions and limits of this Agreement, shall be binding on SBA.

In the event that SBA shall elect to investigate, settle or defend the claims arising under the bonds or participate with Surety in such investigation, settlement or defense, the agreed percentages of loss shall not change.

In the event SBA undertakes or participates in the investigation defense, or settlement of claims, SBA shall adhere to the surety industry's general principles and practices of claims handling and all laws, rules, regulations and orders of any state, local or federal agency, court, governmental or administrative body or tribunal to which Surety is or may be subject.

In case Surety through error shall fail to give to SBA the notice of expected Loss within the time period required by this article, Surety's rights of reimbursement hereunder shall not be impaired absent a showing that SBA has been prejudiced or damaged by such late notice; and then, it shall be impaired, if at all, only to the extent of such prejudice or damage, and no more.

ARTICLE XI

MITIGATION OF LOSS

Surety (and/or SBA, should it elect to handle claims as set forth in Article X) shall take reasonable steps to minimize loss and to recover salvage, subrogation and other recoveries which may be available to it at law or in equity. When, in the judgment of Surety, the further pursuit of recovery, subrogation or salvage is unreasonable, unnecessary or wasteful, Surety shall notify SBA of such determination. Unless, within thirty (30) days of the SBA's receipt of such notice, SBA requests further recovery action, the Surety shall be entitled to abandon any such efforts within such thirty (30) day period SBA may notify Surety that it desires that recovery action continue, in which event SBA shall identify the specific course of action it desires for Surety to pursue or, at the option of either the SBA or Surety, Surety may assign all right, title and interest in the recovery claims to SBA, with further pursuit and recovery to be managed by the SBA.

ARTICLE XII

DISPUTES BETWEEN SURETIES

Any dispute between Surety and another surety or sureties whose losses are guaranteed by SBA shall be referred in writing to SBA for mediation and possible settlement before the sureties engage in litigation concerning such disputes.

ARTICLE XIII

SALVAGE

Any salvage and other recovery by Surety or SBA will be shared in the same proportion as Loss by the Surety and SBA provided, however, that salvage, subrogation and recovery (other than contract proceeds on the bond in question or collateral held by the Surety if SBA has not been reimbursed for its Loss under the guarantee of such bond) may be first credited by Surety against any deductible amount under this Agreement.

ARTICLE XIV

ACCOUNTING REPORTS AND REMITTANCES

Surety shall mail to SBA, forms prescribed by SBA, with all necessary information concerning Surety's guarantee fees, contractors' guarantee fees owed to SBA, and concerning claims against Surety within thirty calendar days after the last day of each month.

The information to be furnished shall include:

(a) Statement of Surety's Guarantee fees owed to SBA.

(b) Statement of Contractors' Guarantee fees owed to SBA.

(c) Statement of Claim Losses paid with expenses pertaining thereto segregated.

(d) Statement of salvage or other recovery.

In addition to the above, Surety shall each month give a statement of all claim reserves established during the preceding month and will at the end of each calendar quarter furnish SBA with a list of all outstanding claims which are subject to an SBA guarantee.

With these monthly statements Surety shall remit to SBA payment of the amount due SBA on account of premiums and contractors' guarantee fees as shown on such statements, with any amounts in dispute to be remitted by Surety to SBA with the statement covering the month during which such dispute was settled. SBA shall pay undisputed claim amounts within thirty days after the end of each month during which such claim was received by SBA, with any amounts in dispute to be remitted by SBA to Surety within thirty days following the month during which such dispute was settled.

ARTICLE XV

CASH CLAIMS

Any item of Loss chargeable to SBA that does not exceed $__________________ shall be reported in the monthly accounts as specified in Article XIV. Any item of loss chargeable to SBA in excess of $________________ shall, at the option of the Surety be reported separately to SBA as a special cash claim. SBA shall pay the special cash claim in a timely fashion, and no later than thirty (30) days after the end of the month in which the special cash claim was received.

ARTICLE XVI

OFFSETS

Surety and SBA may offset any balance, whether on account of premiums, fees, commissions, Loss or claims expenses due from one party to the other under this Agreement or under any other agreement heretofore or hereafter entered into between SBA and Surety.

ARTICLE XVII

PARTIES

SBA and Surety agree that there is no privity of contract between SBA and the principals or obligees of the guaranteed bonds, and the Surety covenants that it will not represent that such privity exists or represent that it is the agent or representative of SBA in connection with the execution of such bonds. This Agreement is made exclusively for the benefit of Surety and SBA, and does not confer any rights or benefits on any other person or entity, other than the parties hereto, the receiver, liquidator, successor or assigns of Surety or the statutory successor of SBA.

ARTICLE XVIII

SANCTIONS

Nothing contained herein shall be deemed a waiver of the rights of either SBA or Surety to seek, impose, dispute or appeal sanctions and other decisions of the SBA.

ARTICLE XIX

INSOLVENCY

In the event of the insolvency of Surety the rights of the receiver, liquidator or other representative of the insolvent Surety shall be no greater than those of the Surety while solvent and no claim against SBA will be paid to a receiver, liquidator or other representative of the insolvent Surety until a creditor's claim has been paid by the receiver, liquidator or other representative.

ARTICLE XX

CONSTRUCTION OF AGREEMENT; OTHER LAWS

SBA's Surety Bond Guarantee Regulations, 13 CFR Part 115, as they may be amended from time to time, are incorporated herein as if fully set forth here and if any Article, sentence, phrase or part of this Agreement is in conflict with the regulations as amended the latter will prevail over the former in construing and applying this Agreement.

ARTICLE XXI

SUSPENSION AND TERMINATION

This Agreement shall continue in effect until terminated or suspended by mutual consent, or by either party giving to the other party not less than thirty (30) days written notice by certified mail, stating the effective termination or suspension date and the date or date on which any suspension shall expire. Suspension or termination of this Agreement shall not invalidate guarantees by SBA executed prior to the date of suspension or termination set forth in the notice, and all conditions of this Agreement involving reporting, claims and SBA's regulations will remain in full force and effect after the termination date and during the period of suspension as to any guarantees executed and outstanding prior to the date of termination or prior to the beginning date of suspension.

IN WITNESS WHEREOF, SBA and Surety have caused this Agreement to be executed in duplicate originals this ___ day of ____________, 198_.

SMALL BUSINESS ADMINISTRATION

By:______________________________ [SBA Seal]

______________________________ [Corporate Seal]
Surety

By:______________________________
President

Attest:______________________________

Mr. **Mitchell**. Thank you.

It is good to see you again.

Mr. **Glover**. It is good to see you, sir.

Mr. **Mitchell**. I want to thank you for the kind of support and cooperation that you have given to me personally since I assumed the chairmanship, and also to the work of the entire committee.

Mr. **Glover**. Thank you, sir.

TESTIMONY OF JERE W. GLOVER ON BEHALF OF THE NATIONAL SMALL BUSINESS ASSOCIATION

Mr. **Glover**. My name is Jere Glover, and I am here as a consultant to the National Small Business Association. NSB is an organization of 50,000 enterprises working in all lines of business. I am also a private attorney, and I would just like to make a couple of points quickly.

One is job creation. There has been some recent confusion concerning who is creating the jobs in the country. The President's small business report that just came out implied that small business may not be creating as many of the jobs as we thought they were.

In 1978 when I was working with this committee on the Future of Small Business Report, we did some hearings on job creation, and prepared an analysis. At that time, we found that large firms, the Fortune 1000 largest firms as defined by Fortune magazine, created less than 2 percent of the Nation's new jobs during the period of 1969 to 1976.

Since there is now some debate, there is some conflict and a recent SBA funded study indicates that perhaps small business is not creating more than its net share of the jobs, I decided to update the study that I had done in 1978.

What we find if we look at Fortune's 1000 largest firms is that between 1969 and 1982, that they had a net loss, a net loss of total jobs of 682,000, a 682,000 decline in jobs. That is an 8-percent decline in net new jobs created.

Now we do not have the second half, the second 500's 1982 figures. We have to use their 1981 figures, but they will be out shortly. What we are seeing is that the largest companies in the United States are not doing anything to create jobs. They are not doing it.

When we focus any policy in any program in this economy on job creation, if we target the large firms, we are making a serious mistake. Now hopefully looking at this, we can determine that it is small- and medium-sized businesses that are creating the jobs, and we can put to an end once again the debate that I thought was over in 1978.

But I keep hearing it, and unfortunately I see it in the President's report on small business. I do not think that anyone should be confused about this. There is no question. Large firms are not creating any jobs. In fact, they are losing jobs.

Let us turn to some other areas specifically. The economy, as we know, is in the worst shape that it has been since the Depression. Unemployment is higher than it has been. Bankruptcies are at record levels. We have to find a solution.

The solution, I think, and I have attached it to my testimony, is in a report titled "It's Better To Lend Than To Spend," which was prepared in 1977. We had some of the same problems then that we have now, and that report basically has a cost-benefit analysis.

The cost benefit analysis indicates that where the SBA makes guaranteed loans, that there is a substantial benefit to the Government in terms of tax revenue, payments to the social security fund, reduced unemployment benefits, and reduced welfare payments.

This analysis was prepared in 1977. It was controversial at the time. There were a series of hearings. OMB at that time challenged the study, and said that it was incorrect. So we had them sit down, and we said: "You tell us what the correct numbers are."

We forced them to do the analysis, and what we came up with at that time was a commitment from the Administrator who went to the President at the request of Mr. Smith, and Mr. Breckinridge, and others, and got a commitment that they would increase the guaranteed loan program.

And we saw for the first time in SBA's history during the economic recessions in 1978 and 1979 that SBA's lending continued, and did not decline. Ordinarily, I think that SBA's lending has declined every time that the economy has gotten worse. They have become what is called procyclical. They encourage the cycle. They say we are going to cut off our lending, we are going to cut back, we are going to retrench.

What is particularly disturbing about SBA right now is Mr. Cardenas, the past Administrator, sent out a memorandum to all of the regional offices that said only make quality loans.

Well, what is a quality loan? Unfortunately, many loan officers define a quality loan as a loan for which the small business has enough equity in his house to pay it off if he defaults. That is not a real quality loan.

If you are going to have criteria, it ought to be spelled out specifically. Things such as job creation, innovation, national defense, international trade to improve our balance of payments, energy conservation, some priorities should have been set. They were not set.

They just sent out a word that said make quality loans. So we find that SBA's lending in the worst times of our economy dropped by 50 percent both in dollars and in numbers of loans. A very procyclical situation, and a very bad situation.

Mr. MITCHELL. Let me interrupt you for just a minute.

Mr. GLOVER. Yes.

Mr. MITCHELL. I hate to do this.

But are you referring to the 1981-82 situation?

Mr. GLOVER. Yes, sir.

Mr. MITCHELL. OK.

Mr. GLOVER. Yes, sir.

Mr. MITCHELL. On the loans?

Mr. GLOVER. Yes, sir.

Mr. MITCHELL. OK.

Mr. GLOVER. Boom, the word went out, and there was an immediate reaction. I know of no other direct cause.

Mr. DAUB. I will give you a few, but I will wait until there is time.

Mr. **Glover**. Sure. All right, let me go ahead on to other things.

OMB, and this is not a current administration problem, but a long-term problem that has been there for three administrations, and I have served in several different roles in the Government, both in Congress, in SBA, and the private sector.

OMB exercises a tremendous amount of control. Unfortunately, in the situation of SBA, it is such a low priority item, that their real objective is to do away with it. After talking to several different OMB project officers, or whatever the title is for the people assigned to SBA, you get the pattern that they really want to do away with it, and their heart is not in it.

But those individuals tend to control SBA, and its policies, and they set it and establish it. It is not set at the agency level. They are set at OMB. They are not set by an executive level employee who is the Administrator of SBA. All too often, they are set by some GS-14 at OMB, who is a career employee who in the back of his mind has one single mission, and that is to set the agency down, and roll it into Commerce as quickly, and as easily as he can.

If you talk to them at any time, they will always come back and say well, you know, you really do not need to be there. Instead of making the agency work and be efficient, they are not responsive to Congress.

Let me just turn quickly to several of the provisions of this bill that I think need to be addressed. The mandatory spending provisions, I think, are excellent. I think that it has to go further. In some discussions that I have had with SBA officials, I am convinced that perhaps those provisions are not strong enough.

I think that you could tighten it up, and you could make not only mandatory spending provisions, but you have your rescissions, and any actions by OMB to reduce SBA, and coming back to Congress after Congress has approved the budget, and approved the appropriations, and it must be done quickly.

What happens now is that it takes months before they come back up to you. But the uncertainty, the confusion in the market, and at SBA itself means that the agency never knows what it is doing. So it is in a constant state of turmoil. The employees are just unable to make a rational policy that carries through the whole year, because they do not know what they are doing until 6 months into the year.

They are told "yes," go spend the money that Congress told you to spend 6 months ago. By then, it is too late. So it is an off-on faucet, and it makes irrational government.

Turning specifically to a couple of areas, I think that the targeting of loans to high unemployment areas and encouraging local participation that Mr. McDade has proposed is an excellent idea. I think that it makes a good bit of sense.

I think that Mr. Smith's proposal for equity participation is an interesting proposal. I think that it could be useful in areas where you target to specific things like innovation, or defense, where you have something that you really want to do.

It is something that I have not spent much time studying and reviewing, and I would like to look at it some more, but it is an interesting proposal.

I know that time is short, and I will stop at this point, and will entertain any questions.

[Mr. Glover's prepared statement with attachment follows:]

PREPARED STATEMENT OF JERE W. GLOVER ON BEHALF OF THE NATIONAL SMALL BUSINESS ASSOCIATION

Mr. Chairman and members of the Committee, it is as an honor to be here today. My name is Jere W. Glover. I act as a Consultant to the National Small Business Association (NSB) on whose behalf I am appearing. NSB is an organization of approximately 50,000 enterprises working in all lines of industry and in all parts of the country. I am also an attorney in private practice, representing primarily small businesses before State and Federal agencies. As some of you may remember, some years ago I had the privilege of working with this Committee as Congressman John Breckinridge's counsel to the Subcommittee on Antitrust, Consumer and Employment. At that time, Mr. Breckinridge and many members of the Small Business Committee were very concerned with the problem of job creation. As part of the Subcommittee's work on the report on the Future of Small Business, we conducted an analysis of the interrelationship between small business and job creation. We analyzed data for the 1969-1976 period and determined that it was small firms, not large firms which were creating the bulk of the new jobs in America (Small business created 98 percent of the private sector jobs in America). Some months after we had completed our study, David Birch of M.I.T. completed his report on job creation and small business and reached a similar conclusion. However, another recent study funded by the Small Business Administration has brought into question the validity of David Birch's data and methodology. While I do not believe it is appropriate to debate the accuracy or the completeness of either of these two studies at this time, I thought it might be helpful for this Committee to have an update of the Subcommittee's original study on job creation. The attached chart clearly indicates that it is small business, not large business, that continues to create the vast majority of jobs in the U.S. economy. From 1969 to 1981, the 1000 largest companies in America, as ranked by Fortune Magazine, created only 3 percent of the new jobs. The second largest 500 actually employed fewer people in 1981 than it had in 1969.

IT'S BETTER TO LEND THAN TO SPEND

Job creation, especially in these troubled times, is of paramount importance to every American. We are now experiencing the highest unemployment rate and the largest number of bankruptcies in over 30 years; it is therefore crucial that we take steps to revitalize our economy. Today, as this Committee examines the budget and operations of the SBA, I believe that you must look at SBA in a broader context. To this end, I am including, as an attachment to my statement, a copy of a report entitled "It's Better to Lend than Spend." After Mr. Breckinridge discovered this report, we asked SBA to verify the data it used to ensure its accuracy. Prepared during the last Administration, it originally was not released because the Office of Management and Budget did not agree with its stated conclusions. I think you will find this report's analysis of the role of the SBA in job creation to be most illuminating.

Let me attempt to summarize for you the key provisions in this report. This report concludes that SBA guaranteed loans are the most cost efficient way to create jobs. Basically, for each $20,000 loaned to a small business, a new job is created. The cost to the Government of creating that job via a guaranteed loan is less than 10 percent, or $2,000. This is computed by determining the administrative cost of the entire SBA Guaranteed Loan Program and dividing it by the total dollars of lending plus an estimated charge-off or loss on the loans of 6 percent—the average charge-off for SBA guaranteed loans during the past decade. On the positive side, for each new job created, the federal government receives significant benefits. These benefits include income taxes from the new worker, social security benefits paid into the social security fund, and a reduction in the amount of unemployment and/or welfare compensation that must be paid to the individual. In addition, there are State taxes and loan guarantee fees which are paid to SBA. An update of this report shows that for each new job created, the net benefit in direct revenue to the federal government is over $7,000. Based on this analysis, we can conclude that even using the worst case scenario—with loss ratios at SBA two times greater in 1979—loans to small business return over $2.00 to the Treasury for each dollar expended.

Concerning this study, let me just state that Mr. Weaver, a past administrator of SBA, stated on several occasions that he believes the study and its conclusion to be valid. One of the main thrusts of Mr. Weaver's tenure at SBA was to increase the guaranteed lending program. To this end, he created the Certified Bank Lending Program, which was designed to greatly increase the amount of loans flowing to small businesses from the SBA. Mr. Weaver told Mr. Breckinridge and other Committee members that the White House had given him a commitment to increase the authorized limit on the total volume of SBA guaranteed loans that could be made until the total demand for quality business loans was met. As a result, during the late 1970's, the SBA's Guaranteed Lending Program increased dramatically. However, recently the picture has changed radically.

SBA GUARANTEED LENDING

Year	Amount	Number of loans
1979	$2,641,800,000	23,970
1980	3,019,474,000	24,864
1981	2,900,760,000	23,215
1982	1,631,528,000	12,780

SBA'S ROLE IN SMALL BUSINESS LENDING

Recent studies indicate that bank loans to small businesses amount to approximately $120 billion. This data appears to indicate the SBA's role in bank lending to small businesses had increased during the 1970's to almost 25 percent. However, during the 1980's, it would appear that SBA's role in bank lending has declined to approximately 1.4 percent. While 1 to 3 percent of loans to small business does not seem like a lot, it is important to remember that SBA loans are long term, fixed rate loans to small businesses who could not obtain money elsewhere. A recent GAO preliminary report estimated that these SBA loans represent 25-40 percent of all long term small business loans.

Mr. Cardenas, the past Administrator of SBA, issued a directive to all SBA loan officers stating they should only make "quality loans." Unfortunately, he did not define what he meant by "quality loans." Whether as a result of his directive and the implementation thereof, or because of the economic downturn, SBA's role in lending to small businesses has dramatically declined during the past two years. We must question the wisdom of this precipitous drop. Through the years, SBA has exerted a procyclical force through its lending policies. By that, I mean that during economic recessions when small businesses need loans most to carry them through to better times, SBA has severely restricted its lending policies. As a result, in each recessionary period, SBA has reduced its loan portfolio. When times are good and money is readily available, SBA has increased its lending. I think it is unfortunate that, over the years, SBA has not provided the vital bridge for small businesses from bad times to good times. Since most recessions are created by government policy, it is difficult to understand SBA's turning its back on small business when it most needs SBA's help.

BANKS CANNOT AND WILL NOT DO IT ALONE

A recent government study indicates that large banks' (one billion dollars or more in assets) total loans to small businesses constitute less than 13 percent of their total business loans. On the other hand, small and medium-sized banks tend to make between 77-95 percent of their loans to small businesses.

Consistently, the large banks have chosen to make huge loans overseas rather than lend to small businesses. Even with Government guarantees for small business loans, banks still are not meeting the demand for long term loans to small businesses. Only one of the largest banks in the United States, the Bank of America, is also one of the SBA's largest lenders.

Quality loans

As I mentioned above, the term "quality loan" has been used by SBA to guide the loan officers throughout the country interpreting SBA's loan policies. Since "quality loan" has not been defined, I would urge you to inquire of SBA as to its meaning. Hopefully, once you have a satisfactory definition of "quality loan," we can determine how the meaning of that term differs today from several years ago. It has always been my understanding that SBA was directed to make "quality loans." However, I fear that today's "quality loans" are being defined by the loan officers in the field as "perfect loans"—loans that have a 100 percent guarantee of being repaid. Certainly there has been a precipitious decline in the amount of guaranteed lending to small businesses during the past two years. Given the sad state of the economy, this is an alarming trend. Let me suggest some criteria for "quality loans" which SBA might find useful: (1) The job creation potential of the loan; (2) Whether the loan would result in additional innovation and new technology; (3) Whether the loan would be in an area concerned with exportation of products; (4) Whether the loan would help the U.S. compete with overseas products, thus reducing our balance of deficit payments; (5) Whether the loan would be of assistance in energy conservation, thereby reducing our dependence on foreign oil. I would urge the Committee to suggest that these additional criteria be adopted by SBA. Without such guidance, loan officers may well decide that in determining what are "quality loans," they should look only at the company's and the individual's financial worth. However; these other criteria which I have identified and those which members of this Committee may be able to suggest, are too crucial, from a public policy standpoint, to be ignored. I am not suggesting that SBA make loans to individuals who will not repay them. What I am suggesting is that SBA's loan policy, implemented judiciously, can help lead us out of the recession and help make America better.

Turning to H.R. 2132, I would like to commend the sponsors for the thought that went into the bill. It is obvious that they have carefully analyzed the problems that the recession has caused for small business, and are seriously attempting to correct them. I am, however, concerned that the guaranteed loan figure for 1984 is perhaps too low. If the country is to be led out of this recession, small business will have to provide the power. I hope SBA will help to provide the fuel.

Concerning H.R. 860, I am sad to say that I support the mandatory provision in this legislation. It is a sad day when Congress has to mandate that an agency should carry out its assigned mission. Unfortunately, SBA sometimes does not control its own destiny. Some GS-12 personnel at OMB end up telling the Administrator of SBA what is good for the country, small business and the SBA. This bill takes much of the discretion out of the people at OMB have such divine wisdom, why don't they come to Congress to defend their decisions rather than hidding in their ivory closets and forcing SBA to take the heat?

Thank you for the opportunity to appear here today. I will be happy to answer any questions you may have.

SMALL BUSINESS AND JOB CREATION

Year	1st 500	2d 500	Civilian labor force
1981	15,635,041	1,591,529	100,397,000
1980	15,908,752	1,702,416	99,303,000
1979	16,195,240	1,784,818	98,824,000
1978	15,785,439	1,844,068	96,048,000
1977	15,298,292	1,835,632	92,017,000
1976	14,836,163	1,874,614	94,773,000
1975	14,412,992	1,851,352	92,613,000
1974	15,255,946	1,993,976	91,011,000
1973	15,531,683	1,966,814	88,714,000
1972	14,676,849	1,845,502	86,542,000
1971	14,324,890	1,765,418	84,113,000
1970	14,607,581	1,719,805	82,715,000
1969	14,813,809	1,822,071	80,734,000
Change	821,232	(230,542)	19,663,000

Note: Percent of employment increase, 1969–81 (Fortune 1000) equals 3 percent.

SBA'S ROLE AS AN ECONOMIC STIMULUS VEHICLE (JOB CREATION)

"IT'S BETTER TO LEND THAN TO SPEND"

SMALL BUSINESS ADMINISTRATION
1953

RATIONALE

At the direction of the Administration and in support of announced Presidential priorities and objectives, the Agency recently completed a study which clearly indicates that the existing programs of the Small Business Administration, given the resources and with minor program modification, are capable of playing a major role in economic stimulus and job creation.

Considering the Administration's goals to reduce unemployment by creating jobs, stimulate the economy, control inflation and move towards a balanced budget, SBA has concluded that it can make a significant contribution to the attainment of these goals.

Such a course is indicated for the following reasons:

1. The stimulus would involve loan funds which would be repaid - not grants which are budget outlays with no direct payback. The net result would be a plus factor with the Federal Government receiving more than it invests. "It is better to lend than spend."

2. Jobs created would be more permanent than public service and public work jobs. Jobs would be created with a plus benefit to the Government; public sector jobs represent a minus factor.

3. The impact of the budget would be minimal since only the repurchase reserve (now 15%) appears initially as an outlay.[1] This goes to the Presidential objective of balancing the budget while at the same time achieving job creation.

4. Small business is more labor intensive than big business.

5. SBA programs represent a direct injection into the economic mainstream. Approximately 3 months are required for SBA loan funds to enter the economy.

   It is important to remember that economic stimulus by SBA involves private sector dollars - not public sector collars. The use of private sector dollars that are repaid is the most viable and fiscally responsible method of achieving a stable economy based on employment in the private rather than the public sector.

SBA believes that the implementation of the recommendations incorporated in this position paper will create jobs, stimulate significant economic activity, help controlling inflationary factors, aid in balancing the budget and strengthen our competitive free enterprise system. Such a program will be responsive to President Carter's pledge "to allow small business viable sources of financing on a parity with big business."

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[1] After recovery efforts, the Agency's net loss currently approximates only 3.02% as there is a 70% recovery on those loans repurchased.

BACKGROUND

Representing close to 97% of the Nation's business entities, SBA's constituency of 13+ million business persons and farmers is second only to that of organized labor. Small businesses generate nearly half of the private sector Gross National Product and over half of all business receipts and MOST IMPORTANT, they employ more than half of the Nation's business work force.

SBA's ongoing economic impact involves loans which are repaid rather than grants which have no direct monetary payback. The Agency is already playing a vital role in the free enterprise system including a direct and productive ongoing relationship with the private sector. SBA is the only Federal Agency which emphasizes and has ongoing active financial programs to fulfill the needs of minorities and women in business. Loans to members of minority groups total approximately 53,000 with total dollars in excess of $1 billion. SBA has recently targeted $100 million (1st quarter of '78) for guaranteed business loans to women.

Given this background, SBA is an obvious instrument for increasing employment opportunities. The approach has the merit of making maximum use of private resources and the free enterprise system itself. Competitive market forces will operate freely in channelling small businesses credit into its most productive employment. Since most small businesses are labor intensive, this approach provides more employment per dollar of expenditure[2] than alternative approaches that would provide incentives for increased investment in capital intensive industries. Additionally, this proposal will provide credit needed by small, high technology concerns for rapid growth and job creation. Finally, this approach creates jobs through expanded investment, which creates permanent values and continued employment.

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[2] SBA's internal Cullen Report and Venture Capital Study indicates that the Agency's job creation programs actually result in no cost but instead net revenue to the Treasury.

CARTER ADMINISTRATION'S LONG TERM ECONOMIC STRATEGY

"Remarks of W. Michael Blumenthal Secretary of the Treasury at the Annaul Convention of the American Bankers Association" -- 10/19/77

"We find today, for example, higher than acceptable levels of inflation and unemployment existing side by side seemingly impervious to tried and true remedies of the past."

"The first principle is that the private sector is the key to the health of the U. S. Economy."

-- SBA is already playing a vital role in the free enterprise system - with a close and productive ongoing relationship with the private sector. The Agency, with a 70% increase in 1977 loan demand, seeks the Administration's commitment to significantly expand its guaranty loan program as well as to provide for the availability of venture and equity capital for the small business community. SBA can move boldly to develop private sector jobs - jobs with a FUTURE - by working in close concert with private sector commercial lenders on the one hand and venture capitalists on the other.

"Our second principle is that government must concentrate on increasing the rate of private capital formation."

-- SBA is prepared to actively engage in the private capital formation objective by expanding the 7(a) Guaranty Program, establishing a more viable and responsive secondary market and intermediate lenders and providing venture capital via the recommendations set forth herein.

"Our third principle is that government policy must provide a stable, predictable environment for business planning."

"Our fourth principle is that government must learn to work with, not against, the business sector in moving the economy away from high inflation and high unemployment."

-- SBA knows through working closely with the private sector in terms of economic stimulus, that it can create a stable predictable environment so vital to the PRIVATE sector. In many areas, SBA has already established candid and open communication with key elements of the private sector. Where this foundation has been built - it is solid. The Agency merely seeks the resources to expand it, efforts and thereby achieve the aforementioned economic objectives of the Administration.

CONGRESSIONAL ATTITUDES

Congress is generally supportive of increased appropriations and lending authority for the Small Business Administration.

One of the frequent complaints from Senators and Representatives is that there are many small businessmen who cannot secure loans and it is frequently suggested that SBA ask for additional funds to expand its financial assistance programs. There is a general attitude on the Hill favorable to small business and increased financial assistance for small business.

The Congressional Rural Caucus, which includes 91 Members of Congress from rural areas, has played a major role under the leadership of Representative John Breckenridge (D-Ky.), a member of the House Small Business Committee, in developing and promoting the concept of expansion of SBA (and Farmers Home Administration) lending programs to stimulate the economy and create jobs, as an alternative to job creation through public works and public works grants.

The heavy emphasis by Breckenridge and other Members of the Caucus is that the impact of such a program on the budget would be minimal, and yet job creation would be stimulated in the job intensive small business sector.

Urban Congressmen and Senators have also indicated an interest in expanded SBA programs and have expressed concern over the relative number of small business persons reached by SBA lending programs each year.

PROJECTION: The economic stimulus proposal outlined in this document would be acceptable to more than a majority of the Members of both Houses. Many would enthusiastically support the proposal.

THE ECONOMIC SIDE OF SMALL BUSINESS

Four of the broad policy objectives of the Administration and of long-run economic policy are to increase employment, accelerate economic growth and stimulate investments and control inflation. Given the means the Small Business Administration will contribute positively toward achieving these goals in that:

-- Its impact would be to create private sector jobs and likewise utilize the private sector for funding.

-- Its programs assuming 3 year tenure in job creation have a positive payback to the Government.[3]

-- Its use of labor per dollar of investment in most instances proportionately greater than that of large business because small business is relatively labor intensive.[4]

The stimulation of business investment, in addition to the increase of consumer demand, is expected to be important as a means of reducing unemployment. Because of the severity of the recent recession and current inflation, improvement of the sales, cash flow and undistributed earnings of small manufacturers is known to have been slower than changes for large firms. Recovery of the profit situation of small businesses in other industry activities probably has been rather similar. Therefore, if monetary policy dictates a very moderate (or restrictive) rate of growth in the money supply to stabilize prices, small businesses which often are considered to have marginal financing opportunities may experience difficulty in obtaining adequate funds until price stability is achieved during the economic recovery. Generally small businesses have very limited access to capital markets and offer relatively uninteresting investment opportunities for the banking community.

SBA deals in an environment that not only involves high technology but also is labor intensive. It cannot be overemphasized that the Agency's job creating tools involve repayment and in the long run -- profits. No other Agency or Department can provide repayable and profitable programs that stimulate our economy to such a degree.

SBA'S NEW ECONOMIC STIMULUS

The recently approved Neighborhood Business Revitalization Pilot Program is designed to stimulate commercial and industrial small business revitalization in declining but viable urban neighborhoods, towns and rural communities. This new thrust creates jobs, strengthens existing small businesses, creates new small business enterprises, provides necessary community business and professional services, improves real property values, and reinforces community stability and economic health.

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[3] U. S. Department of Labor - Job Tenure of Workers, January 1973 p. A-9 indicates that the average tenure for private sector employment is 3.9 years.

[4] SBA's Cullen Report indicates that for every 10,000 in SBA guaranteed loans, one job is created (see Appendix I).

Acting as a catalyst, SBA seeks to cause interrelated, long-term investments by both the public and private sectors. The public investment, including public service improvements, is sought on the basis of public policy. Private investment is attracted by the use of SBA's authority to guarantee private sector loans.

SBA guaranteed private sector financing of small business revitalization minimizes direct government expenditure while satisfying critical national and local needs. The Program dovetails with other Administration programs to create jobs, rebuild the cities, and strengthen local economies in both urban, suburban and rural areas. Special efforts are built in to create and preserve minority employment and to sustain minority business growth.

Local community initiative and leadership, participation by the local financial institutions, and public facility and service improvements by the local government are necessary to program success. Neighborhood small business revitalization is most successful when concurrent action is taken to revitalize the adjacent residential area. Residential rehabilitation creates additional jobs and small business contractor opportunities.

Pursuant to Section 7(b)7 of the Small Business Act, and in an effort akin to that of Neighborhood Business Revitalization SBA has engaged in the lead role in job retention and creation and revitalizing the local communities effected by the closings of military installations. SBA has helped retain or create 15,898 jobs in defense impacted communities.

SBA SURVEY ON JOB CREATION

In July 1977, SBA at the request of the Administration and Congress designed a statistical survey of its Fiscal Year 1976 business loan borrowers in order to responsibly determine the relationship between SBA's business loan programs and job creation (See Appendix I).

The results of the survey were as follows:

-- On an average each $10,000 in loans made to a small business creates one new job slot.

-- In addition to the creation of a new job, each $10,000 in loans maintains approximately three jobs.

-- The average salary of the small business employees in 1976 was approximately $6,000 which compares reasonably with median per capita income for that year and the average salary and wages of employees in retail trade and services -- areas of major small business activity.

-- A sound statistical basis was established for the Agency to proceed with a cost-benefit analysis of SBA's programs and their related impact on employment, job creation and economic stimulus.

COST/BENEFIT ANALYSIS OF AN SBA ECONOMIC STIMULUS EFFORT

Utilizing the results of the Survey on Job Creation, the Agency prepared a Pro Forma Cost Benefit Analysis (See Appendix II) which clearly illustrates the effect of accelerating SBA's business loan program in an increment of 100,000 jobs at $10,000/job or $1 billion in either increased federal guaranteed funding or direct funding to small business.

In preparing the Pro Forma Cost Benefit Analysis on both programs, costs were measured over the average 7-year life of an SBA loan; savings and revenue were conservatively measured over a 3-year job tenure for a new position created. Estimates of job creation also are discounted to allow for a transfer of a portion of total employment generated by SBA loans from alternate forms of employment. Thus, the maximum level of job creation is set at 100,000 persons or $1 billion in loan money with an average of $10,000 loan value per job created. The minimum figure is related to past findings of the Congressional Budget Office concerning the proportion of job creation which would be drawn from the ranks of the unemployed. 5/

5/ Congress of the United States, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975, p. 4.

This lower job creation figure was further discounted to provide a conservative estimate of 45,000 new jobs generated by SBA business loans.

The results of the cost benefit analysis are summarized in the following table:

	SBA GUARANTY LOANS		SBA DIRECT LOANS	
	High	Low	High	Low
Jobs	100,000	45,000	100,000	45,000
Net Revenue	$659.1M	$252.6M	$508.9M	$102.4M
Net Revenue/Jobs	$6,591	$5,613	$5,089	$2,276
Annualized Return on Investment for 3 Years	286%	130%	108%	48%

Over a 3-year revenue cycle and the 7-year cost cycle, the high level of employment through guaranty loans should generate a total revenue of $745.9 million with a cost of $86.8 million. Utilizing the private sector (guaranty loans), it would require minimum Treasury outlays to be recaptured through Federal income taxes, savings in unemployment compensation and welfare payments and guarantee fees. Net revenue would amount to $659.1 million or $6,591 per job created. At a low level of job creation, the guaranteed program would generate revenue of $339.4 million with costs of $86.8 million and revenue of $252.6 million or $5,613 per job.

At the upper level of job creating -- 100,000 -- SBA direct loans will generate $737.4 million in total revenue and will cost $228.5 million over the 7-year maturity period. Net revenue will amount to $508.9 million or $5,089 per job. At the low level -- 45,000 -- net revenue will be $102.4 million or $2,276 per job.

Although the SBA guaranty program shows the greatest return on investment from a high of 286% to a low of 130% per annum, the Agency's direct loan program also shows a positive return on investment from a high of 108% to a low of 48%. This differentiation is made inasmuch as direct funds are much more easily targeted than guaranty funds and that the Agency not the private sector, is the major decision maker in the loan process.

COMPARISON WITH OTHER EMPLOYMENT PROGRAMS

SBA has been unable to compare its proposed loan package with other programs for employment stimulation or support of the unemployed. Published impact data for other programs are derived by various estimating techniques which have been revised over time and which sometimes employ the use of econometric models in developing estimates. The Agency, therefore, needs information for other programs which can be cast into our own model. To date it has not been possible to obtain these statistics and currently no assumptions can be made concerning the future availability of such figures. However, a reasonable degree of comparability may exist in SBA and other program estimates of the impact of their employment stimulus in reduction of the unemployment rate.

In 1975 the average unemployment rate was 8.5% (8.45%). That same year the Congressional Budget Office estimated the initial rate reduction of selected programs costing $1 billion as follows: [6]

- Public Service Employment	.07 - .11	
- Anti-recession Aid to State and Local Governments	.04 - .07	
- Accelerated Public Works	.02 - .04	
- Tax Cuts	.01 - .02	(1/3 Corporate - 2/3 Personal)
- Government Purchases	.02 - .04	

At the low and high levels of employment (45,000 and 100,000) the SBA $1 billion injection in 1975 might result in a reduction of from .03 to .06. This translates to an impact of 8.45 - .03 = 8.42 and 8.45 - .06 = 8.39. These estimates are based on an arbitrary assumption that only six of every ten persons employed under SBA's economic stimulus will represent a true reduction in unemployment and the others might come from other job alternatives.

Each of the above programs calls for expenditure of $1 billion as compared to the SBA program which calls for lending (and return to the Treasury) of $1 billion or "IT'S BETTER TO LEND THAN SPEND."

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[6] Congress of the United States, Ibid, p. 69

CONCLUSIONS AND RECOMMENDATIONS

GUARANTY LOAN PROGRAM

SBA's Guaranty Loan Program is one of the Government's most cost efficient and in reality will result in a net payback to the Government. However, an effective change to a private sector form of economic stimulus and job creation over a phased 5 year program, is suggested, whereby, the private sector and SBA may lay the ground work for sound stable economic growth while maintaining a reasonable loan loss ratio. Below is a recommended phased growth projection for accelerating SBA's guaranty loan program:

Fiscal Year	Dollars Loaned	Additional SBA Personnel Resources		Jobs Created (Thousands)
		Increment	Total	
1979	$5 billion	(+2,335)	2,335	220 - 500
1980	$7.5 billion	(-1,168)	3,503	330 - 750
1981	$10 billion	(+1,167)	4,670	440 - 1,000
1982	$15 billion	(+2,335)	7,005	660 - 1,500
1983	$20 billion	(-2,335)	9,340	880 - 2,000

DIRECT LOAN PROGRAM

In order to maintain the Agency's mandated commitment to all small businesses, and the Administration's ability to best target funds to areas of high unemployment (like Youngstown, Ohio), it is necessary that SBA continue its direct loan efforts to accommodate the needs of those entrepreneurs who truly cannot obtain financing through normal lending channels or to communities caught in an economic disaster.

With the provision of reasonable direct fundings, the Agency finally will be able to promote and market its lending programs. Too often, in recent years, promotional efforts have backfired because SBA could not deliver due to a lack of two all important resources - dollars and personnel.

Finally, if necessary, direct government financings could well be utilized in a counter cyclical manner to provide continuity of economic stimulus (job creation) during periods of tight money or in the event of an economic downturn.

Below is a recommended phased growth projection for accelerating the direct loan program representing 10% of the guaranty program growth:

Fiscal Year	Dollars Loaned	Additional SBA Personnel Resources		Jobs Created (Thousands)
		Increment	Total	
1979	$500 million	(+623)	623	23 - 50
1980	$750 million	(+312)	935	34 - 75
1981	$1 billion	(+312)	1,247	45 - 100
1982	$1.5 billion	(+623)	1,870	68 - 150
1983	$2 billion	(+624)	2,494	90 - 200

IMPLEMENTATION

Upon approval of the above recommendations, SBA will take immediate steps to begin implementation of its new role - ECONOMIC STIMULUS. The modifications and procedures established will be closely related to the overall reorganization concepts within SBA. Some of the actions and modifications are as follows:

- Once the resources - dollars and people - are committed, the Agency will engage in extensive PROMOTION EFFORT. SBA will promote its lending programs in general and the guaranty program in particular. Special emphasis will be placed on establishing working relationships the bankers associations, trade associations, local chambers of commerce, etc.

- Both the Agency and its clientele are presently overburdened with complex and confusing statutes, extensive regulations and procedures and multiple sets of criteria that must be met before obtaining and using loan proceeds. SBA will, therefore, CONSOLIDATE its numerous lending programs in order to more effectively deliver financial assistance (see Appendix III).

- In order to provide job creating potential to the fullest extent, it will be necessary to seek legislation enabling SBA to raise the LOAN and MATURITY ceilings. For specific economic stimulus loans to be made under closely controlled criteria, no legal limit will be imposed and maturities will be raised to 30 years - consistent with Department of Agriculture's Business and Industry Program. (See Appendix IV).

- Any major expansion of the guaranty program will require substantially increased involvement and interest by participating lenders. Given the nature of the Nation's commercial loan portfolio; it is opined that there will be a need for intermediary lending outlets - SMALL BUSINESS LENDING COMPANIES. The SBLC is created under SBA regulations and operates for the sole purpose of making SBA guaranteed loans.

- The Agency's SIZE STANDARDS need a complete overhaul. It is the intent to completely revise said standards and develop a simplified definition of Small Business that is both readily understandable and equitable to the American business community for the lending and procurement activities.

- As currently operated, the SECONDARY MARKET is overly fragmented and the cumbersome nature of the transfer system reduces the free movement of investments within the market place. To support increases in guaranty loan activity, it is essential that a smoothly functioning secondary market be available. To accommodate this vital need, SBA will establish a centralized transfer and paying system as well as a certificate of ownership which can be freely traded. (See Appendix V).

- The Agency will conduct an in depth efaluation of the piloted NEIGHBORHOOD BUSINESS REVITALIZATION program so as to utilize same as one of the major lending mechanisms for SBA's overall economic stimulus thrust. Closely following the reorganization concepts, the delivery mechanism will provide for constant communication between SBA field personnel and the various elements of business and socio-political leadership in the local communities across the nation. The delivery system will be most effective with local SBA personnel (team concept) working closely with local businessmen and community leaders.

ECONOMIC IMPACT

The above estimates of jobs created show that by 1983 the low and high range of employment generated from the business loan programs would be as follows:

Guaranty Loan Program	$20 billion	880,000 - 2,000,000 jobs
Direct Loan Program	$ 2 billion	90,000 - 200,000 jobs
	Total	970,000 - 2,200,000 jobs

The low range of job creation would average almost 23,000 per job while the high level would be 10,000.

Due to SBA's proposals to revise size standards, loan levels, etc., the average loan investment per job may increase somewhat. SBA's increased loan participation in such areas of industry as construction and manufacturing may also tend to raise the average investment level.

In September 1977, unemployment and the unemployment rate (seasonably adjusted) for the civilian labor force were as follows:

Labor Force	97,868,000
Unemployment	6,773,000
Unemployment Rate	6.92

If the SBA low and high levels of job creation by 1983 are related to the September 1977 figures the change in the unemployment rate would be as follows:

Low Level 6.92 - .59 = 6.33
High Level 6.92 - 1.35 = 5.57

APPENDIX I

SURVEY OF SBA BUSINESS BORROWERS FOR FISCAL YEAR ENDING JUNE 30, 1976

SBA JOB CREATION - THE CULLEN REPORT

One of the major problems in formulating opinions if the job creation potential for the SBA loan programs has been a total lack of reliable statistics on the degree to which the loans have been used by borrowers to create jobs as opposed to job maintenance. Employment information extracted from the SBA loan approval documents has shown a combined figure for jobs which borrowers expect to be created from loans and the number which they would maintain.

In July 1977, SBA initiated plans to conduct a sample survey of its business loan borrowers to develop information which would measure changes in borrowers employment, payroll, sales and assets prior to the loan approval date and one year after that date. The focus of the survey was on the change in employment from the date of loan approval to one year later and on the number of jobs created as opposed to maintained. The jobs created later gave the cost of a job per dollar of loans approved, and the remainder of the information was to be used primarily to estimate cost-benefit aspects of an expanded program.

Sampling Frame and Procedure

The sample was drawn from the computer records on SBA business loans approved in Fiscal Year 1976. Distribution of the approvals and number of employees by employee-size of classes of borrowers were as follows:

Employee Size Classes	Loan Approvals Number	Loan Approvals Percent	Employees Number	Employees Percent
0 - 3	11,914	45.8	21,519	7.5
4 - 6	4,878	18.8	23,580	8.2
7 - 12	3,829	14.7	35,370	12.3
13 - 24	2,700	10.4	46,985	16.3
25 - 48	1,668	6.4	55,487	19.2
49 - 99	709	2.7	46,169	16.0
100 - 249	272	1.1	37,715	13.1
250 - 500	30	0.1	9,982	3.5
501 and Over	6	*	11,235	3.9
Total	26,006	100.0	288,042	100.0

The design and size of the sample were determined with the assistance of the Bureau of the Census. SBA selected a sample option which included a total of 441 cases and was stratified by employee-size of borrower. The sample contained all of the 308 establishments with 100 or more employees and a stratified sample of 133 establishments from the remaining 25,698 establishments with 99 fewer employees. Under the sample design the true proportion of change (P) from FY 1976 to FY 1977 was assumed to be around 10 percent with an error of 10 percent of (P) and a confidence level of 95 percent.

Survey information was collected by telephone by SBA field employees, and employment data were obtained from 335 cases or three-fourths of the total. The majority of the cases for which information was not available represented

* Less than .05 percent

loans which were cancelled after approval and sometimes following initial disbursements and companies in liquidation.

Survey Findings

According to the returns of the SBA borrowers survey, jobs created approximately one-fifth of the total positions which were created and maintained by the business loan program. In deriving this ratio declines in the number of jobs from the FY 1976 employment levels to the FY 1977 levels were regarded as negative creation which were subtracted from the total number of jobs created. The portion of employment which was regarded as maintained did not always include all employees who were on payrolls at the date of loan approval. Maintenance data reported by borrowers sometimes represented only a portion of the total employment which was affected by the SBA loan.

The survey indicates that on an average each $10,000 in loans to small business creates one new position and additionally, maintains approximately 3 positions. As this is the first survey of its kind to be conducted by SBA, the Agency has no prior information for comparative use on cost of job creation. However, initial evaluation of the survey returns suggests the job creation aspects of findings are reasonable. The cost of loan dollars per job created tends to be low -- approximately $10,000 per job. In 1975 the Congressional Budget Office in discussing public service employment noted that the cost of jobs created by those programs, might be as low as $8,000 because the preponderant number of new employees would be unskilled and receive low wage rates.[7] A very substantial portion of the SBA loan created jobs also might be among workers who are not highly skilled and receive relatively low salaries and wages. FY 1976 loan approvals are distributed by major industry divisions as follows:

Major Industry Division	Loan Approvals		Amount of Approvals		Average Value of Approvals
	Number	Percent	($000)	Percent	($000)
Agriculture	482	2	37,974	2	79
Mining	87	0	14,435	1	166
Construction	1,594	6	123,577	6	78
Manufacturing	3,715	14	464,330	22	125
Transportation	838	3	68,489	3	82
Wholesale Trade	2,767	11	297,103	14	107
Retail Trade	11,203	43	707,871	34	63
Finance	169	1	16,701	1	99
Services	5,087	20	324,420	15	64
Other	136	1	9,733	0	72
Total	26,078[8]	100	2,064,637	100	79

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[7] Congress of the United States, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975, p. 52

[8] Totals from different SBA tabulations vary slightly.

APPENDIX II

PRO FORMA COST BENEFIT ANALYSIS
1 Billion Dollars of Loans and 100,000 New Jobs

	SBA Guarantee Loan Program		SBA Direct Loans	
	High	Low	High	Low
JOBS CREATED	100,000	45,000	100,000	45,000
	In Millions			
REVENUE GENERATED:				
Federal Income taxes received	150.0	$67.5	$150.0	$67.5
Savings in unemployment compensation and welfare payments	587.4	263.4	587.4	263.4
Guarantee fees	8.5	8.5	-	-
Total Revenue	745.9	339.4	737.4	330.9
COST OF THE PROGRAM:				
Administrative cost	36.8	36.8	107.7	107.7
Estimated chargeoff (loss)	50.0	50.0	100.0	100.0
Interest (subsidy)	-	-	20.8	20.8
Total Cost	86.8	86.8	228.5	228.5
NET REVENUE	$659.1	$252.6	$508.9	$102.4
NET REVENUE/JOB (Whole Dollars)	$6,591	$5,613	$5,089	$2,276
ANNUALIZED RETURN ON INVESTMENT FOR 3 YEARS	286%	130%	108%	48%

Note: See next page for basic assumptions.

BASIC ASSUMPTIONS

This analysis excludes any indirect or multiplier effect on jobs created or cost benefits to the Government. It does not include social security contributions of employers and employees, payments for unemployment compensation and payments of corporate income taxes.

Jobs Created: High - The estimate of 100,000 jobs created was based on results of a statistical survey designed by the Bureau of the Census on SBA Business Borrowers for Fiscal Year Ending June 30, 1976. A $10,000 value of loans per job created was derived from the actual reports of borrowers. These returns were considered to provide a higher loan cost and more conservative estimate of jobs created by SBA loan dollars than the survey very likely will produce. Borrowers with 100 and more employees were included in the survey with certainty and appear to generally have had a higher loan dollar requirement per job created than the smaller concerns which comprise the noncertainty stratum. This probably results from the fact that the great majority of SBA borrowers are both small in employee size and are in retail trade and services which have relatively low loan requirements per job.

Jobs Created: Low - The low for jobs created was related to an assumption that a proportion of the total would come from the unemployed portion of the labor force or indirectly would alleviate unemployment in the labor force rather than be a total transfer from alternative uses. The following statement concerning the relationship of job creation and unemployment was published in the Congressional Budget Office report, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975, p. 4: "For the economy as a whole, as ten new jobs are created, six are filled by unemployed persons and four by persons not previously seeking work." More recently, this estimate was revised to seven of ten from the unemployed. The Agency in its analysis used a more conservative estimate by further reducing the low level for job creation by another 25 percent--from 60,000 to 45,000.

Revenues Generated: Federal Income Taxes Received estimates were based on data from the SBA borrowers survey which showed an average payroll per individual of approximately $6,000 and Internal Revenue Service data which showed that the average individual income of $6,000 per year generated $561 in Federal income taxes. The SBA average borrower's salary and wage figure coincided reasonably with the $6,002 median individual income figure for 1976 which was published in the Bureau of the Census report, Money Income and Poverty Status of Families and Persons in the U.S.: 1976, Series P-60, No. 107. The IRS figure of $561 was published in Preliminary Statistics of Income 1974, Individual Income Tax Returns was conservatively rounded for this analysis to $500 per individual. A job tenure of three years was assumed.

Savings in Unemployment Compensation Welfare Payments was based on an average of $3,250 in unemployment compensation which was published by the Congressional Budget Office in Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1977, p. 70. That portion of job creation which would come from either welfare or unemployment compensation recipients was estimated at 60 percent of the high and low levels established for job creation. The annual unemployment benefits were estimated conservatively to extend over a three-year period. The Department of Labor Special Labor Force Report 172, Job Tenure of Workers, January 1973, lists the median tenure of both sexes on a job as 3.9 years. SBA had no means of estimating the proporation of job creation from the unemployed sector which would come from persons on unemployment compensation and welfare, but the $3,250 CBO unemployment figure is compatible with the levels of payment for the two groups. According to the Office of the Assistant Secretary for Planning and Evaluation, HEW, an average monthly payment for families on all types of welfare would approximate $250 per month or $3,000 per year.

Guarantee Fees: Guaranteed fees were estimated at slightly less than the one time rate of 1 percent earned by SBA on loans guaranteed to financial institutions.

Administrative Cost: Administrative cost was estimated at 150 percent of the prevailing cost to provide adequately for future cost increases and miscellaneous expenses.

Estimated Chargeoff: The historic chargeoff rate for the guarantee loan program is 3.02 percent and for the direct loan program is 6.6 percent. However, on the assumption that an accelerated loan program would be accompanied by a higher loss level, these chargeoff rates were increased to 5 percent and 10 percent, respectively.

Mr. **Mitchell**. Thank you, and I am sure that there are some in addition to those that I have.

This is a fairly general question, Mr. Abrams. First of all, I want to compliment you on the way that you are moving ahead to try to do something about this bonding problem that has been with me for the 13 years that I have been in Congress. It is obviously hurting businesses.

But my general question is we get a lot of talk now saying that the surety bond program gives an unfair advantage to those who have access to it. Therefore, it is really acting against the concept of fairness in the total small business community.

Do you understand what I am saying?

Mr. **Abrams**. I understand.

Mr. **Mitchell**. Now how do you answer that criticism?

I know that I have my answers, but I would like to hear yours.

Mr. **Abrams**. I do not know that I have a pat answer to that, simply because from my own experience in dealing with the small contractors as a group, and my experience with the standard surety market, I do not see an unfair advantage given.

Because when normal underwriting standards are applied—and in this sense, I do not mean normal to the industry, but I mean in looking at this target group—I do not see that there is any favoritism within the entire target group.

In other words, I really cannot respond directly to that unless it would be a one on one situation where someone would raise that. We have never approved as a single company or as a group of companies bonds for contractors who we thought were not qualified. There might be an individual exception to that by an underwriter from a judgment standpoint.

But this bonding program was not one which in effect says everyone will have access to a bond. There are certain criteria that apply to the small businessman the same as to the large businessman.

Mr. **Mitchell.** Now there was one other area that I wanted to pursue with you. In your testimony, you indicated that you really did not have any data base to try to determine the number of companies that attempted to get bonding, and were turned down. And you suggested that there were many of them.

Mr. **Abrams.** Yes.

Mr. **Mitchell.** I think that it would be important to have that information.

Could your group undertake some kind of study to look at that, or who should do it?

Mr. **Abrams.** I do not know that our group could do it. We could do it as individual members on our own agency plan, asking them to attempt to keep some records.

Mr. **Magnotti.** I would just like to add one thing possibly on that, Mr. Chairman. That the information should come from the people who have been turned down. It is a nonavailable piece of data for us, if they ask and are turned down.

For example, we are trying to get together with the minority contractors. It is the people who have been turned down who can supply the information on exactly where, when, and under what circumstances.

Mr. **Mitchell.** I think that that is probably the best approach. Then they would give this information to SBA?

Mr. **Magnotti.** Yes. And also to us. Now we have offered to establish this hotline, and that is to leap over any obstructions that they might have in the local area. In other words, if they are turned down, we want to know about it. I can refer to a number of companies or agents immediately, if they find that they cannot find bonding.

But we are trying to give them multiple access, if you will. Many of them do not even know who the agents are for the local area. It is a process of education which Mr. Thomas is now going through obviously out in California in which we will intend to participate.

Mr. **Abrams.** Our problem, if I may add to that, is that as a company we have records on all of the declinations, all of those applications that have been declined.

Mr. **Mitchell.** For your company.

Mr. **Abrams.** But many of them are declined, and never reach us, by the agent himself, who is the salesman, and that we do not have access to.

Mr. **Mitchell.** I would like to work on that, because all of these programs are being criticized. I think we have to more and more come up with hard justification for the continued existence of certain programs.

We ought to do something about that, Tom, and get that data base on it.

Mr. Glover, I really do not have any questions for you. You have said many of the things that I have been saying this year and last year. In one of the past hearings, I just could not understand why we had a 50-percent drop in direct loan money, and a 50-percent drop in the guaranteed loan program from 1981 to 1982 at the very time when businesses needed that assistance the most.

I would suggest in all fairness that the new Administrator then came in. He had one set of objectives, or was given a set of objectives to accomplish. For every new Administrator, there is a period of settling in, and trying to get adjusted to his agency.

Then he was rather suddenly replaced, and another new Administrator came in. We had to go through this whole process of weaving policies, and objectives, and so forth.

I guess that that was one of the things that I was trying to shoot for in my personnel bill, to try to reduce the number of political appointees. Obviously, the Administrator will be a political appointee. But to reduce the number of political appointees, so that you have a greater continuity of objective from one administration to the other.

We have not gotten very far with that. But I just wanted to say that maybe those were some of the mitigating circumstances that explain this 50-percent drop.

Mr. Daub.

Mr. DAUB. Do not be discouraged about that, Mr. Chairman. I introduced a bill when I first got here 2 years ago to postpone payment of senior corps executive bonuses, and did not get a single cosponsor. It is OK to give the guy who has been around here 50 years a $10,000 bonus, but there is only one guy in SBA who has been here for 14 years that gets it, and nobody else does get the bonus.

It only saved $300,000, and it was not a lot of money, I suppose. But it was meant to send a signal. But indeed there was not a single cosponsor, and it was curious to me why only the leadership of the Federal unions would be opposed to it.

It is clear that of the two or three affected, that did not get the word, who would have been the most offended.

I would suggest to you that these are very different times than the six previous recessions since World War II. Indeed, the inordinate difficulties that we face may not be necessarily historically explainable, particularly where small businesses were even more adversely affected in this recession than they were in past recessions.

The other elements that are required to operate and/or to engage in new business starts were probably less available as a resource to an entrepreneurial idea than in past recessions. The ability of a small business to find collateral financing, substitute resources was probably more difficult this time.

So then when you turn to that final place where you might look for a Small Business Administration loan, you just have not got enough other resources even to gather in this unusual circumstance to even turn to them to ask them if they would help you start.

And it is hard to pin down. I do not know if you can empirically gather any data to support the assertion that I am making. But just as I have looked as a small businessman at my SBA district office in Omaha, which is ranked as the best in the country by most people who look at it in terms of efficiency and turnover, their sense without being able to prove it is why there were not more people coming in the door, when there were not that many coming into banks and being turned over, and then being referred over to SBA to find it.

There was just a whole shutdown that occurred. And small business was adversely affected. And I am not going to deny for a minute that my chairman is not right about the unexplainable and without criterion order and just looking at loans as if they were high quality blue chip, and that that did not have an impact.

But there were not a lot of people coming into the door to begin with because of double digit interest rates, double digit inflation rates. Then I hasten to turn around and point out that Dun & Bradstreet did a story and I am sure that you saw that and did some empirical research that determined that there were more business new starts than there were businesses going bankrupt during 1982.

So these were mostly small businesses. The last point that I want to make to you is that it is a phenomena again to note that the big businesses that are losing payroll slots, and not creating new ones are in big cities. And those are industries that are historic.

They are smokestack industries to a degree. They are the airline, the punch plate assembly factories, the steel related, the rail related industries. So indeed the problem is that the big Fortune 500, or wherever your study took you, their complexion has changed with robotization and computerization.

So then on the other hand where we see high unemployment in this same location, Congress turns around and rushes all of its jobs money with all due respect to the high unemployment area where small business is not going to be able to survive, if you follow the logic of that.

I am not saying that it cannot survive, and that it will not given some time for this to all sort out. But the problem is that unemployed auto worker who then in turn gets a computer training job has no place to go. Because of the very deterioration that caused the core of the city to deteriorate, that then caused the outmigration.

Sociometrically, it has not been properly evaluated, that Government small business guarantee loan demand. Because of the fact that that cleaning store, or that beauty shop cannot find a market to get enough customers to turn a profit anyway when they do their pro formas.

It is a systemic or endemic problem. I cannot give you data that is absolutely perfect that says that this is the problem. But we are going through a little dip right now. I would just ask you to consider what happened when small business loan money dropped off. It may not be historically explainable.

But there is a unique set of circumstances that layered the baby boom, turning to the baby bust. The demand for wide-bodied 747's, and interstate highways immediately dropped because we went to a synthetic economy, and other things were being substituted from "Burger Biggie" to "Bag and Save," to all of the other things that were going on in a society that was aging.

So our big cities took it in the neck. And a lot of these big companies that you have analyzed were in those locations. So some of the explanation, I think, has to be looked at in a different light. That is all that I want you to accept as a proposition to explain this loan demand thing.

It was a screwy problem that we had. I do not like it. I am just saying that I think that there is a business explanation for that that was far more complicated than some Administrator flying into town, and just immediately shutting the system down, because you cannot do that.

Mr. **Glover**. Let me explain how I got to the problem, that is in meeting with SBA loan officers, and talking to people in various district offices. They keep coming back to me with the Cardenas memo as justification for turning down——

Mr. **Daub**. I would expect the bureaucrat to do that to you when you ask him.

Mr. **Glover**. They have been doing it rather consistently.

Mr. **Daub**. We expect that.

Mr. **Glover**. So then I went back to look to see what is happening. The bureaucracy is a wonderful tool that accomplishes great things. However, it has several fatal flaws, one of which is given an excuse, they will always do the most conservative.

They try to anticipate what somebody in Washington wants. When someone sends you a memo that says only make quality loans, the presumption is that you were making bad quality loans before, and you should change what you are doing.

In fact we see the numbers that have occurred. What should have happened, and I know that Vernon Weaver in the last administration did this, is to say we are in bad times, the economy is not there, there is a recession. We are going to increase SBA lending during this period to help bridge small business over, so that they will survive.

Now that kind of forward thinking was not done because Vernon Weaver believed in it. It was done because this committee just pounded it into his head, and then went to the President, that President in particular, committed to the concept of SBA bridging the gap.

Mr. **Daub**. We can talk all day about this. This is more philosophical in a way. I understand Vernon Weaver's commitment, and it was good. Because he had to do it, because this committee got involved. I was not in Congress.

I am only suggesting that there are other elements that need to be looked at. That the broad brush of accusation, regardless of party, regardless of which committee is sitting in oversight over what program for SBA's sake, that it is very difficult to explain, I suggest, if you spent $1 million on a Harvard study, that it would be very difficult to suggest that the turndown—because the turndown in economic indicators affected small business beyond those connected with SBA, or FHA, or all of the other programs that help them.

I mean that it was very difficult out there for anybody to decide beyond a pizza franchise that there was going to be any business out there. People were being laid off. They were losing their jobs. The shutdown was such that you could not do a prospective study on marketing region, and figure out any way for a small business, in a car wash or anything else to make it.

I mean that things looked so bad that bankers were not even seeing people coming in, and asking for money for new business starts. I think that that is important. Now in terms of carrying over a business already started; yes, I am sure that renewals and increases sagged. The problem there was that the interest went up to a market rate, right?

Mr. **Glover**. Yes, sir. And I am sure that we are both right in this situation. I think that the problems that you point out had a very heavy bearing on this. Maybe 25 percent, or maybe 30, who knows what percent, but a substantial portion of it was the economy, and the demand declining.

Mr. **Daub**. Remember, this recession was deeper and wider. In fact, each recession has been deeper and wider each time they happen. We think we learned some lessons about infrastructure. Small business offers a great opportunity to solve part of these problems.

The chairman and I agree. It always gets overlooked. OMB is at the worst of using what is the least controversial agency affecting, they think, the fewest number of people. I do not care what administration that it is in. They always seem to look at line item obligations.

When you get down to SBA, if we can get our overall savings out of one place, let us get it there. I know that that is a problem.

I appreciate your written testimony. A lot of the features of the two bills that you are here to testify about today are very, very well taken, and I support a number of the features in each of these bills.

I am particularly concerned about small business surety bonding. We have a United Minority Contractor formal organization in Omaha, Nebr. Mr. Thomas has been out. I am sorry that the other gentleman is not here. Al Apse is our executive director of that organization. It has had one heck of a time being able to technically advise particularly our disadvantaged contractors, and now we have got the Surface Transportation Act, the so-called nickel-a-gallon thing. It is going to mean a terrific opportunity.

Our State roads department is working very closely with this United Minority Contractors group, a survivor organization, by the way, in the shutdown of some of the other operations that existed the last couple of years, and they are doing very well.

Thanks to your volunteer efforts, they have been able to get some bonding when they could not get it otherwise, and will probably be utilizing your organization a great deal more. They have mentioned your organization to me, and this is the first time that I have had really a chance to get acquainted with you.

So we appreciate your input to the testimony here. I do want to acknowledge that the Administrator made a good decision. What this committee may do in terms of the statutory enactment of more certain and stable language, I am not certain yet what we will do.

But I really was pleased at the Administrator's action to get rid of the limitation, and open up that process again. It is going to help a lot of our contractors in Nebraska now. Because they are going to go from a job with a 25-percent increase, that would not even compare to their last year's job on a road construction or bridge repair job now with the 10-percent set-aside for disadvantaged business that is in that act.

So you are going to be a lot busier than you might even contemplate in the next 6 months, I am sure.

Mr. Mitchell. I am pretty sure where I want to go.

Mr. Daub. I appreciate that, Mr. Chairman. I am just not quite as sure.

Mr. Mitchell. Putting it into the law. But I think that the Administrator did do the right thing in reversing himself. But the problem that occurs has been mentioned by several witnesses. In the interim when a bad decision is made, and it is there for 6 months, or 3 months even, it has an enormously negative impact.

Many times, that guy who is caught under that negative impact cannot recover. I just want to say that I have been troubled for all of these years about quick fix decisions made by any Government agency. Those decisions really being predicated on some new direction, or new policy by a new administration, either Republican or Democrat.

Mr. Daub. It would not be so bad if we could keep Mr. Sanders around for 4 more years, right, Mr. Chairman?

Mr. Mitchell. I do not care whether it is Republican or Democrat.

Mr. Daub. I just thought that I would throw that in.

Mr. Mitchell. I just think that there has been a lack of continuity that has troubled me quite a bit.

Mr. Daub. I agree.

Mr. Mitchell. Gentlemen, all of your testimony has been just excellent. All of the witnesses have had a high caliber testimony, and we appreciate it. Thank you, very much.

We will now adjourn our hearing.

[Whereupon, at 12:17 p.m., the subcommittee adjourned, to reconvene, subject to call of the Chair.]

SBA AUTHORIZATION AND OTHER SMALL BUSINESS LEGISLATION

TUESDAY, MAY 3, 1983

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE, AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. This morning's hearing covers two topics. First, is the physical disaster assistance loan program administered by the Small Business Administration. We used to have a good program to assist victims of natural disasters with low-interest SBA loans.

The budget reconciliation "steamroller," and that is exactly what it was, however, flattened this program in 1981, and increased the interest rates to high levels. These have been, and even now, are so high as to offer little assistance to those who might have lost all of their possessions in a flood, or hurricane, or tornado. A number of bills have been introduced to rectify this by providing low-interest disaster loans.

The second topic that we want to deal with is the inactive nonphysical disaster loan program administered by the SBA. In previous years, Congress recognized that small businesses injured by events such as the peso devaluation needed Federal assistance, and a loan program was enacted to help those individuals who depend on Mexican nationals for a large amount of their business.

This program also was run over by the budget reconciliation "steamroller"; it was not only flattened, but it was written completely out of existence. There are a number of bills pending to reinstate this program.

I want to submit for the record a copy of a letter that I received from a number of Members of Congress. It says:

> Dear Parren: We of the Congressional Task Force on the devaluation of the peso would like to express our sincere gratitude for your consideration to reinstate Federal Economic Disaster Loans to victims of the Mexican economic crisis. As representatives of the Mexican border regions, we can attest to the severity of the situation.
>
> The welfare of many Americans depends on the economic stability of Mexico. As we know, the Mexican economy has been far from stable in recent months. Faced

with the near immediate loss of up to 80 percent of their clientele, small businesses in the four border States have turned to the Federal Government for help.

Through Federal Economic Disaster Relief Programs, many border small businesses were able to survive a disastrous 1982. Their continued survival depends on a renewal of Federal assistance.

We appreciate your efforts to help these small businesses.

Sincerely, Congressmen Udall, Hunter, Coleman, Kazen, McNultey, Skeen, McCandless, Patman, Hance, de la Garza, Ortez, Bates, Martinez, George Brown, Loeffler, and Mickey Leland.

This morning's hearing has the finest array of talent in the form of witnesses today. I am referring, of course, to the witness list which consists of 10 of my colleagues in the Congress. In fact, I feel a little intimidated and awe-struck to have 10 Members of Congress appear before this committee. However, I will gird my loins, and try not to appear cowed by your presence.

Seriously, I am pleased to welcome all of you, and I am sure that we will benefit from receiving your views and recommendations. What I would like to do, if it is agreeable to the witnesses, maybe we can take them in panels of threes. Mr. Coleman was here first.

If it is all right with you, Congressman Udall, Congressman de la Garza, could the three of you come up and do it in panels of threes, with Mr. Coleman the earliest arrival being the first to speak?

Might I indicate that we have copies of all of your statements. Of course, the statements that you have submitted to the committee will be submitted for the record in their entirety.

Congressman Coleman.

TESTIMONY OF HON. RONALD D. COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Coleman. Thank you, very much, Mr. Chairman. I am pleased to have the opportunity to testify before this subcommittee. I want to summarize my statement, and not read it. I would ask that it be placed in the record, Mr. Chairman.

Mr. Mitchell. It will be submitted in its entirety for the record.

Mr. Coleman. I strongly support the legislation pending before this subcommittee today. Mr. Chairman, your legislation, H.R. 2583 does reinstate an effective program for assisting disaster victims.

Other legislation, that introduced by Congressman de la Garza, H.R. 2317; Congressman Kazan's legislation, H.R. 1929; Congressman Udall's legislation, which I have cosponsored, H.R. 1593; and legislation introduced by Congressman Bates, all achieve one major goal. That is the reinstatement of the disaster loan program for those areas suffering from economic dislocation caused by foreign currency fluctuations.

Mr. Chairman, just briefly, this is not a regional problem. I think that from the witness list some might believe that to be the case. But there is indeed a ripple effect, Mr. Chairman. The national problem results from significant bankruptcies in the United States-Mexican border area. Bankruptcies that have disrupted all area economies.

Immigration, and the pressures for immigration, are heightened by Mexico's economic situation and affects all Americans, not just those along the border. Along that 1,933-mile border with Mexico, Mexican and American communities are inextricably linked through both cultural and economic ties and are suffering some of the worst economic trials in their history.

Much of my testimony, Mr. Chairman, goes in to the history that all of us along the border have recognized.

Retail and wholesale trade is dropping off drastically. It is important to note that the Mexican sister cities, as we call them, have populations two to three times greater than their American counterparts.

This fact amplifies the effects of Mexico's woes on American communities. The Immigration and Naturalization Service recently advised me of the increase of the number of undocumented aliens arrested in El Paso, 14,800. That is an average of 528 arrests per day, and represents a 60-percent increase over the arrests of just a year ago.

The staggering unemployment rates of 40 percent and higher in Ciudad Juarez, El Paso's sister city, underscore the pressure for illegal immigration to El Paso even in the face of unemployment rates as high as 15 to 30 percent on the United States side of the border.

It would be virtually impossible for the law enforcement agencies to apprehend all of the aliens coming across that border. There are, for example, only 400 officers patrolling 180 miles of desert and sand hills, 161 miles of river border, and 85,000 square miles of tortuous terrain comprising what is known as the El Paso sector.

Devaluations have bankrupted small businesses costing local governments millions in tax revenues, and causing a strain on social services and law enforcement agencies. In El Paso, sales-tax revenues for January were 47 percent below levels for January of 1982.

One businessman in El Paso operates a typical open air clothing and dry goods store, and his revenues dropped from $3,000 a day, gross earnings, to a little more than a few hundred dollars per day.

More than two dozen stores that can afford to remain open showed a 33-percent decline in sales for the Christmas period ending January 15 as compared to a year before.

My colleague, Congressman Jim McNulty, has informed me that Douglas, Ariz., saw a business revenue decline of 60 percent over the last half of 1982 compared to the same period in 1981, with some businesses reporting losses as high as 90 percent. Laredo, perhaps the worst case, showed a sales tax revenue loss of 69 percent for that same period.

Economic conditions like this create the ripple effect that I referred to earlier, that damages all businesses, decreases housing starts and property values, and increases the demand for limited social services. In addition, we are seeing dramatic increases in the demand for food stamps and free medical care.

I want to say again, Mr. Chairman, how much I appreciate this subcommittee's concern in trying to alleviate this suffering, not only on the part of small businesses, but on the part of individuals who are displaced as a result of these wild currency fluctuations.

Thank you, Mr. Chairman, for the opportunity to appear before this subcommittee today.

[Congressman Coleman's prepared statement follows:]

PREPARED STATEMENT OF HON. RONALD D. COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I am pleased to have this opportunity to address this Subcommittee and underscore the importance of enacting legislation to reinstate the Small Business Administration disaster loan program. Representing the 16th District in Texas, I am qualified to report the severe economic crisis that is damaging not only my district, but all of the districts along the U.S.-Mexico border. The Representatives from each of these districts have expressed their concerns to me in our Border Caucus meetings—a forum that deals exclusively with the unique problems of the "sister cities," United States and Mexican cities that lie back-to-back along the border. This is not a regional problem. This is a national problem. Any time you have significant bankruptcies in a region as extensive as the United States-Mexico border, there is a ripple effect that disrupts all area economies. Immigration, and the pressures for immigration that are heightened by Mexico's economic situation, affects all Americans, not just those along the border. I would like to briefly outline the crisis situation on the 1,933-mile border with Mexico where Mexican and American communities are inextricably linked through both cultural and economic ties.

In 1976, the Mexican Administration devalued the peso by 40 percent. At that time, my distinghished colleague, Congressman Kika de la Garza, had the foresight to introduce legislation creating direct Small Business Administration loans of up to $100,000 at 6½ percent interest rates. That legislation, enacted into public law, relieved small businesses from the hardships placed on them by the loss of revenues incurred in the devaluation of the peso. As part of the 1981 Omnibus Budget Reconciliation Act (Public Law 7-35), however, the Administration substantially weakened this direct disaster loan program.

On February 17 of last year, the Banco de Mexico announced that it would no longer intervene to support the peso. That move resulted in a 30-percent devaluation of the peso. In early August, the fear of increased inflation caused a new run on the peso. By August 5, the Government announced a new two-tiered exchange rate system. Dollars from oil exports and foreign loans would be made available at a "preferential rate" for paying interest on debts and for importing vital goods. Other dollars would have to be bought on the free market, approximately 85–90 pesos to the dollar.

On September 1, the banks in Mexico were nationalized and the government announced a general plan of exchange controls to block the flow of hard currency from Mexico to the United States. The immediate impact on Mexican-U.S. commerce cannot be emphasized enough. Following the change in Mexican Administrations, the de la Madrid government [illegible] a liberalization of exchange rates—similar to the previous two-tiered system. [illegible] decision, announced on December 20, created the same schism between [illegible] rate" and the free market rate. Most recently, the fall in oil prices [illegible] further devaluations. Today, the peso-dollar exchange fluctuates around [illegible] to the dollar. It is estimated that the peso is depreciating by 13 centavos [illegible]

Let me digress for a moment [illegible] economic principles involved in the devaluation of the peso. When [illegible] administration made the decision to allow the peso to fluctuate free[illegible]gn exchange market, with the exception of the "preferential rate," [illegible]nt that the peso's value would be determined by supply and demand conditions. The demand for dollars shows Mexico's and Mexican citizens desire to purchase U.S. goods, to travel abroad, to buy U.S. sevices, to transfer money to the United States for investment and other purposes, and to repay U.S. loans. The supply for dollars, alternatively, reflects United States and U.S. citizen's desire to purchase Mexican goods, to travel to Mexico, to buy Mexican services and to transfer money.

Three main factors will contribute to and determine the future peso-dollar exchange rates: changes in the level of Mexico's imports, changes in the level of Mexico's exports, and the level of Mexico's external debt. Mexico has significantly reduced its level of imports in 1982 and the possibility for an increase is slight as they have limited imports to critical commodities like food and capital goods. The Mexican external debt has increased and as the repayment of interest and principal increase, so increases dollar outpayments. Lower production costs and cheaper prices in Mexico have increased non-petroleum exports associated with twin industries, the so-called "maquiladoras," and tourism. Low world-wide prices of crude oil have substantially decreased Mexico's oil revenues. What all this adds up to is an increase in dollar outpayments and a decrease in dollar inpayments thereby causing future peso devaluations.

All along the border, unemployment and immigration are reaching egregious proportions, while retail and wholesale trade are dropping off drastically. It is important to note that the Mexican "sister cities" too many of our border communities have populations two to three times greater than their American counterparts. This fact amplifies the effects of Mexico's economic woes on American communities. For example, the Immigration and Naturalization Service recently alerted me to an increase in the number of undocumented aliens arrested in El Paso: 14,800. That is an average of 528 arrests per day and represents a 60-percent increase over the arrests a year ago. With staggering unemployment rates of 40 percent and higher in Ciudad Juarez, El Paso's twin city, the pressure for illegal immigration to El Paso is clear even in the face of unemployment rates as high as 30 percent on the U.S. side of the border. It would be virtually impossible for the law enforcement agencies to apprehend all of the aliens coming across the border. Only 400 officers patrol 180 miles of desert and sandhills, 161 miles of river border, and 85,000 square miles of tortuous terrain comprising the El Paso sector. The efforts of these 400 individuals are highly laudable in the face of increased illegal immigration. Devaluations have bankrupted small businesses costing local governments millions in tax revenues and causing a strain on social services and law enforcement agencies. In El Paso, sales-tax revenues for January were 47 percent below levels for January of 1982. One businessman in El Paso, who operates a typical open-air clothing and dry goods store, has seen his revenues drop from $3,000 a day to little more than a few hundred dollars per day. More than two dozen stores that can afford to remain open showed a 33-percent decline in sales for the Christmas period ending January 15, as compared to a year ago. My colleague, Jim McNulty, has informed me that Douglas, Arizona saw a business revenue decline of 60 percent over the last half of 1982 compared to the same period in 1981, with some businesses reporting losses as high as 90 percent. Laredo, the worst case, showed a sales-tax revenues loss of 69 percent for the same period.

Economic conditions like these create a ripple effect that damages all businesses, decreases housing starts and property values, and increase the demand for limited social services. In addition, we are seeing dramatic increases in the demand for food stamps and free medical care. We must do something to alleviate this suffering, not only on the part of small business, but on the part of individuals who are displaced as a result of these wild currency fluctuations.

Following the abolition of the direct disaster loan program, the Small Business Administration initiated a program to alleviate the hardships being suffered by small businesses along the border. While I applaud their efforts to ease the situation, I regret that the program has not been as successful as anticipated. The so-called "Peso Pack" program provided $200 million in direct and guaranteed loans for areas suffering from the effects of the peso devaluation. There are two problems with the "peso pack" program that merit our attention today. First, this program offers qualifying small businesses regular SBA loans and SBA loan guarantees at interest rates that can be as high as 12 percent—depending on the prime interest rate. Second, the payment of the principal and interest on the loan is usually deferred only three months. These two problems belie the intent of the program as hard-hit businesses will either not seek the loans due to the rigorous repayment schedule or they will not qualify for this SBA assistance as it is targeted to businesses who are suffering relatively short-term problems.

Upon preliminary investigations of the statistics regarding the SBA program by a House Government Operations Subcommittee investigating the "peso pack," it appears that a highly inequitable distribution of loans exist. For example, in El Paso, only 4 guaranteed and 24 direct loans have been approved compared to the Lower Rio Grande Valley, near Brownsville, Texas, where 28 guaranteed loans and 181 direct loans have been approved. This accounts for a total of $2,411,000 in the El Paso area as opposed to a total of $15,981,000 in the Lower Rio Grande Valley. With roughly similar populations, these preliminary findings highlight some serious problems with the Peso Pack program.

The Small Business Administration testified last year that they have existing programs to assist small businesses suffering from the dire economic impact of Mexico's economic situation. Namely, the section 7(a) regular business loan program. Let me point out that the interest rates on those loans can be as high as 14 percent and there are no guidelines for easing the repayment schedule.

I strongly support the legislation pending before this Subcommittee today. Chairman Mitchell's legislation, H.R. 2583, reinstates an effective program for assisting disaster victims. Other pending legislation, H.R. 2317, introduced by Congressman de la Garza, H.R. 620, introduced by Congressman Kazen, H.R. 1929, introduced by Congressman Udall, which I am cosponsoring, and H.R. 1593, introduced by Congressman Bates, all achieve one major goal—that is the reinstatement of the disaster loan program for those areas suffering from economic dislocation caused by foreign currency fluctuations. By targeting the legislation to those areas, we guard against any potential abuse by other areas claiming the need for disaster loans. The funding for this program will come from the SBA revolving loan fund and will only require an increase in the loan guarantee ceilings. I am not asking for a budget-busting piece of legislation that would simply add another layer to our already burgeoning deficit. I am asking for relief that will provide additional revenues to offset our nation's deficits and to relieve that drain on social services.

By reinstating the economic dislocation loan program, we will simply permit direct loans of up to $100,000 at manageable interest rates, with a mandatory one-year deferral of repayment on the principal and interest of the loans. Let me underscore one important point: this is not a grant program or a government giveaway to small businesses. This is an investment in our nation's future. Thank you, Mr. Chairman.

I request permission to revise and extend my remarks as I receive further information.

Mr. MITCHELL. We thank you for being here.

Congressman Udall.

TESTIMONY OF HON. MORRIS K. UDALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. UDALL. Mr. Chairman, I am delighted to have a chance to be with my colleagues here today. Before I forget it, I would like to submit to the subcommittee the letters of Mayor Fontes of Nogales, Ariz., and Mayor Bermudez of the town of San Luis, Ariz.

Mr. MITCHELL. Without objection, both letters will be submitted in their entirety for the record of these proceedings.

[Mayor Fontes' and Mayor Bermudez' letters follow:]

CITY OF NOGALES,
Nogales, Ariz., March 29, 1983.

Nogales, Arizona as an international city faces on-going social and economic problems which are disproportionate to its jural-political size in such areas as unemployment, underemployment, housing, pollution, social service, etc. In fact, the 1982 unemployment rate averaged 21.1 percent for the year reaching an unprecedented high of 31.1 percent for October 1982. The City's unemployment rate has run, and is running, consistently higher than the state and national levels. The rate for January and February of this year saw 26 percent and 25.6 percent respectively. As alarming as these statistics are, they tend to understate the problem which is due in part to the current recession felt nation-wide, two Mexican peso devaluations and the failure of lending institutions to reduce their high interest rates.

One method of stimulating and revitalizing new investments and reinvestment would be through a Small Business Administration Program tailored to low-interest loans; deferred repayments of six (6) months to twelve (12) months; coupled with developmental strategy conferences directed toward basic, sound managerial technics for improving one's internal controls and practices which lend themselves to healthy business growth and productivity; the creation of peripheral businesses to reduce unemployment. In short, giving the "small businessman" the necessary tools to analyze their own economic base, short term objectives, long range goals through feasible strategies. This holistic approach is dependent upon the relationship between realistic low-interest rates and the necessary orchestration directed by City government in cooperation with all funding sources pooling their resources. But for the assistance of a federal program to aid the "small business" in keeping itself solvent, the City of Nogales will continue to see its small businesses close and the unemployment rate rise at an even more alarming protection. A Small Business Administration Program is needed and invited for the City of Nogales, Arizona.

F. D. FONTES, *Mayor.*

TOWN OF SAN LUIS,
San Luis, Ariz., March 29, 1983.

Hon. MORRIS UDALL,
Congressional District No. 3, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN UDALL: As a follow-up to our conversation and discussion during our visit to Washington, D.C., I would like to re-assure you of my support for the proposed legislation that you are introducing to help the businessman along the Mexican Border Towns.

During your campaign when you visited our town, you must recall that all the merchants members of the Asociacion De Comerciantes and the San Luis Economic Development Commission, were writing letters to the Governor to declare this area an Economic Disaster Area due to the drastic devaluation of the peso that has come to reduce our revenues by 60 percent.

The existing economic conditions which have created other social problems have to be dealt with in the very near future, before they reach the danger point that will eventually cause our communities to become breeders of crimes and social disaster.

Many of the merchants are working hard to hold their own. The Town Manager and Council have been continually striving for some form of diversification by attempting to sell our town to light industries, because we pride ourselves in having a good labor market.

The reduction in retail sales tax revenues has led us to reduce staff in all departments. In some areas we are depending more and more on volunteer people from our community.

Let me know if I can be of any assistance in providing information regarding other communities that are experiencing the same reduced, unstable economy and black market currency exchange problems that are detrimental to all border cities.

Yours truly,

ELIAS BERMUDEZ, *Mayor.*

Mr. UDALL. I think that the appearance here today of myself and our other colleagues who are involved in this legislation testifies to its importance, and our concern that something be done. I want to commend the chairman not only for these hearings, but for the description that he has given of the situation that we find ourselves in.

We were run over by a steamroller in the old reconciliation act. I hope that we can bring back this program, or some of these programs which have proven their usefulness, and have proven their power in the past.

The earthquake in California reminds me today not only of what I have been telling my friends in California for some time that we will be selling oceanfront properties in Arizona shortly if this keeps up, but this testifies again, the earthquake situation, that a currency devaluation or an economic problem can be just as serious as a physical disaster.

My statement covers much of the same ground as Ron Coleman has just given the subcommittee. There is a unity along the border and among border Congressmen. We have been working together in cosponsoring each other's bills, and trying to shake out what is the best approach to all of these problems.

It is simply critical. When you go to a place like Nogales where the city relies heavily on sales tax, they have had layoffs, and their bankruptcies are at an alltime high. I simply suggest that something has to be done.

While the administration, I am sure, had good intentions, this so-called peso pack that they proposed is not doing the job. It is not any better than what was available before they suggested this. I have statistics in my statement suggesting that this is not being used. I think that in Arizona that only one application has been approved.

What my legislation would do specifically is to make loans something that would be helpful, and not something that really cannot be used. We would do that in two ways. The interest rates under the administration's program have been 12 percent. We let them go down as low as 8 percent.

They want repayment to begin in 90 days, and we say that it can go up to a year in our bill. I think that that is something merchants will want to use, and if they can have it, it will help get business along the border back on the track. So I will not read the rest of my statement, Mr. Chairman. But I am here in strong support of what your committee is doing. We are looking to you for leadership. I think that with your help, and all of the suggestions that have been made, maybe we can find some program that we could all agree upon and get enacted this year.

[Congressman Udall's prepared statement follows:]

PREPARED STATEMENT OF HON. MORRIS K. UDALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. Chairman, first of all I'd like to thank you and the Members of your Committee for holding these hearings on small business issues and for allowing me to testify on the legislation I've introduced, H.R. 1929. H.R. 1929 would provide a measure of relief to small businesses along the U.S.-Mexico border that have suffered economic dislocation as a result of recent peso devaluations.

Over the past year news reports in the United States have included accounts of the economic difficulties facing many developing countries and their possible impact on our own economy. I think you will agree Mr. Chairman that the situation in Mexico is of special concern to this country. Mexico's problems have already led to peso devaluations in February, August and December of 1982 and have driven the rate of exchange of pesos to dollars from 25 to 1 in January of 1982 to the present rate of 120-150 to 1. For border businesses highly dependent on Mexican customers these devaluations have translated into economic disaster.

For businesses in border towns dominated by large Mexican-side populations such as Douglas, Nogales and San Luis, Arizona, the most obvious effect of devaluations has been the sharp drop in customers. The once familiar bustle in the commercial districts of these towns has been replaced with inactivity. The decline in retail sales has triggered a multitude of problems all along the border area. In 1982 bankruptcy filings in Arizona set a record, 1,198 firms declared bankruptcy, representing a 50.3 percent increase. While specific information on the direct relation between the rate of business failures and the peso devaluation is unavailable, it's safe guess that there is significant correlation.

Circumstances in Nogales, Arizona, a border town with a U.S.-side population of 18,000, clearly demonstrate the problems being faced by cities and towns all along the border. Declines in the retail trade industry along with layoffs in U.S. assembly plants in Nogales, Sonora have contributed to an increase in the unemployment rate from 11.8 percent in February 1982 to 23.6 percent in February 1983. To further complicate matters, unemployment has been paralleled by a growth in the labor force, due to increasing green card commuters (guest workers), undocumented workers and the number of workers each household sends into the labor force.

Nogales, like many other border communities, is highly dependent on sales tax revenues. In the fiscal year ending June 1982, sales taxes accounted for 43 percent of the city's revenues. But, since the loss of Mexican trade, sales tax revenues have dropped sharply. In December 1982, they were down 63 percent from the previous year. This drop will probably necessitate a 20 percent reduction in the city's budget for fiscal year 1983.

In response to economic conditions along the border, in August of 1982 the Small Business Administration announced the creation of a new government loan program dubbed "peso pack." The program makes available up to $200 million in direct and guaranteed loans to qualified businesses to provide immediate working capital and to assist with debt repayment. Direct loans are available at an interest rate of approximately 12 percent with an average repayment deferral of three months.

The failure of the Administration's program to provide meaningful assistance to ailing businesses is demonstrated by its underutilization. Only 12 percent of the $200 million made available was used as of March 18, 1983. In Arizona, a total of eleven applications for "peso pack" loans have been received by SBA and of those eleven only one has been approved. There is virtually no difference between the conventional Small Business Administration loans and those available under "peso pack". For businesses hardest hit by the devaluation, SBA loan eligibility requirements are prohibitive. In addition, many businesses are reluctant to enter into loan agreements with such high interest rates and short payment deferral periods.

The Small Business Act Amendments of 1977 established a new type of "economic dislocation" disaster loan. While language in the Act did not make specific reference to foreign currency devaluation, in reporting this provision the conference committee stated that refinement of what constituted economic dislocation would be left to the determination of SBA and stressed its intention that loans be made available to businesses suffering substantial economic injury due to Mexican currency devaluations.

In his 1981 budget message to Congress the President requested the termination of the non-physical disaster loan program. In Congressional action, the House voted to restructure the program and in so doing eliminated the applicability to economic dislocation resulting from foreign currency devaluation. The final conference agreement not only barred any funding for non-physical disaster relief in fiscal years 1982, 1983 and 1984, it also accepted the restructuring provisions of the House bill. Consequently, Mr. Chairman, more than a simple refunding of the non-physical disaster loan is required. There must be specific coverage of economic dislocation arising from foreign currency devaluation.

My legislation would not only reinstate the old, pre-1981 SBA non-physical disaster loan program, but make it specifically applicable to economic dislocation arising from foreign currency devaluation. Under its terms, small businesses in a qualified disaster area would be eligible for low interest loans with rates as low as 8 percent, if conventional financing is not available. Businesses could borrow up to $100,000 and the payment of all interest and principal would be deferred for one year. The loans could be used for working capital and to pay financial obligations which the small business owner could otherwise have met had the disaster not occurred. Funding for the program would come from the existing revolving fund for SBA disaster loans and be subject to the availability of such funds.

Problems resulting from Mexico's economic instability are numerous, my testimony has touched on only a few. The greatest problem is Mexico's debt load. In that regard, the recent loan package between the U.S. and Mexico was an important step forward in helping our ailing neighbor. But, in responding to this crisis it's important that we not overlook the vulnerability of American businesses in the Southwest. I don't contend that my bill will allow us to return to business as usual. It can, however, help many small businesses to weather this economic storm.

Mr. Chairman, I'm proud that some of my distinguished colleagues representing districts along the border have joined me in cosponsoring this measure. I appreciate the Committee's interest in the matter and hope that you provide for reinstatement of the non-physical disaster loan program with specific application to foreign currency devaluation.

Mr. MITCHELL. Thank you, very much.

Congressman de la Garza.

TESTIMONY OF HON. E de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. DE LA GARZA. Mr. Chairman, I join my colleagues in thanking you for your diligence, your cooperation, and your understanding of our problems. I am very grateful for what you and your committee have done, as far as your personally documenting the problems on the border and sending a special task force down to look firsthand at the situation.

I can only repeat the gruesome statistics of my colleagues as to what is happening in our area even now. I have come just now from a meeting with our Ambassador to Mexico, where we discussed, among other things, the disastrous economic conditions along the border caused by the Mexican financial crisis. His assessment of the situation is that Mexico will surmount its problems and will measure up to the high standards of which all Mexicans are so proud, but it is going to take time. During that time we need to help the devastated border areas.

I just want to add two things to what my colleagues have said. Mr. Coleman alluded to it, as did Mr. Udall, and you mentioned it, also. When the major devaluation occurred on the Mexican side last August. I visited with the State Department, the Treasury, the Federal Reserve, the administration, with everyone concerned. We drafted emergency assistance legislation very carefully and very exactly. They told me do not spare with a big brush. So the proposed bill was drafted very carefully, and it was helpful, but with one wide swoop, all of those good things fell by the wayside including this provision.

Mr. Chairman, I am a cosponsor of H.R. 2583, your bill to reinstate a more effective disaster program. I would have no objection if you saw fit to incorporate our emergency economic assistance into your bill, because I am a cosponsor and I support it. I think that drafted carefully, economic dislocation assistance would be beneficial.

The other thing is the national impact of the disaster along the border. What is not sold in Brownsville, McAllen, and Laredo, Eagle Pass, El Paso, or Douglas, or Nogales is manufactured elsewhere in the United States, in Michigan, Pennsylvania, Illinois, Indiana, et cetera. Not doing something to help our border problems is increasing the unemployment you see in the rest of the United States. Even this administration has shown interest in pumping money to the urban areas, to the manufacturing areas, to the high unemployment areas.

Although I cannot give you a figure, a great amount of that unemployment is caused by excess inventory held by border businesses, by items that are not sold down on the border. Hard as I try to convince them, the elements of this administration that deal with this matter refuse to understand the fact that the unsold dress in that store in El Paso came from New York, or Maryland, or Virginia, as did the unsold auto parts and many other unsold goods that are manufactured elsewhere in the United States.

Yes, the immediate impact is upon your small businessman on the border. But the secondary and perhaps equal detriment is the impact on the people who manufacture the items we are not selling there. I wanted to leave that thought with you, Mr. Chairman.

Also, I commend you for your legislation. You mentioned briefly the question whether we are going to have disaster assistance or not. I think everyone agrees, yes. The other question then is the definition of what is a disaster.

The economic dislocation along the border, because of the fluctuation of currency, is as disastrous to us as a tornado or a flood. But when you have a tornado that rips through a city, knocks out one square block, and I say this respectfully, then the Salvation Army comes in, the Red Cross comes in, the SBA comes in, the National Guard comes in, everyone comes in.

Yet you have a more devastating impact when the money flow stops, and no one comes in. And this is why we are asking you to assist us.

[Congressman de la Garza's prepared statement follows:]

PREPARED STATEMENT OF HON. E DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. Chairman and members of the Subcommittee, I thank you for providing time during your SBA authorization hearings to direct attention once again to the very serious conditions along the Mexican border.

Mr. Chairman, I wish I could say there has been an improvement in the situation since I last testified before you on September 29, 1982. At that hearing, I told you of the economic devastation on the U.S. side of the border caused by the peso devaluations and nationalization of Mexican banks. Now, seven months later, I come before you again to report that the economies of border communities have continued on a downward spiral and the resulting impact is being felt far beyond the border region.

As one who spends a great deal of time on the border, I can tell you I feel even more strongly now the urgent need for the Federal government to recognize the importance of what is happening there. It is not just a prolonged economic slump but rather a major economic disaster with national implications. Businesses in existence for 50 to 75 years have had to close their doors along with many newer businesses. Unemployment rates have skyrocketed. Service and other types of businesses not dependent upon Mexican trade for their profitability have suffered from their local customers' economic reverses. The whole border economy is reeling from the effects of Mexico's financial problems which we know will take a long time to resolve.

Because we are looking at a region struggling to cope with an ongoing disaster that will not soon go away, we must provide assistance to give border businesses time to develop new business strategies, refocus their marketing, and rebuild liquidity. In 1976 when the peso devaluation caused serious dislocation along the border, the SBA's economic injury program provided that badly-needed aid. Having killed the economic injury program with the Gramm-Latta bill in 1981, the Administration has not shown any interest in providing some sort of special assistance to border residents during the current crisis.

To meet the desperate need along the border, I have again introduced legislation authorizing the Small Business Administration to provide emergency loan assistance to areas that suffer severe economic dislocation resulting from drastic currency fluctuations. In addition to authorizing emergency SBA direct or guaranteed-bank loans up to $100,000, my original bill permitted deferral of payment of principal and interest for one year on loans made under the new program. In my new bill, H.R. 2317, I have included these same provisions and have added a provision authorizing the SBA to permit deferral of principal and interest payments for one year on any direct or guaranteed loans previously or subsequently made to borrowers located in an area of economic dislocation caused by foreign currency fluctuations.

The emergency loan and deferral program should be put in place as soon as possible. Regrettably, despite the specific request you as Chairman of the Committee on Small Business made to the SBA to lower its direct loan rate for border businesses, the agency did not see fit to do so. Until January 1983, all direct loans approved under the Administration's highly-touted Peso Pack Program carried either a 14⅝ percent or 14½ percent interest rate—too high a cost for a business with declining sales. In many instances, it was cheaper to get an SBA-guaranteed bank loan rather than a direct loan because of the rapid drop in the prime rate last fall. In January 1983, SBA direct loan interest rate was lowered to 11⅝ percent, a considerable improvement, but still a far cry from a true disaster loan rate. I understand it was just increased to 11¾ percent for the quarter beginning April 1.

Despite the high direct loan interest rate, numerous businesses have sought SBA funds to stay afloat at a critical time, and the SBA has been making loans to businesses hurt by the peso crisis. At the same time, many other businesses along the border do not wish to increase their borrowings but rather require more time in which to pay back existing loans. It is necessary to give both them and the new borrowers more flexibility to manuever their way out of a desperate financial situation which they did not create.

Althouth I know the SBA does have a repayment deferral policy for special situations, I don't believe it has been given sufficient publicity. I urge immediate action on this legislation. That will tell suffering border residents their government is aware of the extreme difficulties they face and is committed to providing relief.

Last fall you were told of the gravity of the border problems. Recent statistics highlight the depth of the catastrophe. Take for example the unemployment figures in my District for March 1983: Hidalgo County, 20.5 percent; Staff County, 49.6 percent; La Salle County, 15.5 percent; and, Zapata County, 17.4 percent. And these figures represent a slight decline in February 1983 unemployment levels. In Cameron County, which used to be in my District, the March 1983 unemployment rate was 17.1 percent. By comparison, the State of Texas as a whole had an 8.7 unemployment rate for the same period.

Sales tax receipts for Texas border cities year-to-date through March 4, 1983, compared with the same period last year paint a vivid picture of the decline in sales along the border: McAllen, down almost 45 percent; Brownsville, down 45 percent; Laredo, down almost 55 percent; and El Paso, down 43.7 percent. The story is worse for the month ending March 4: McAllen, down 64.5 percent from a year ago; Brownsville, down 68 percent; and Laredo, down 69 percent. Figures just released for the month ending April 4 show less of a decline (McAllen, down 30.5 percent, and Brownsville, down 36.6 percent), but year-to-date figures show only a marginal improvement.

Retail border businesses dependent upon Mexican trade have seen their sales drop 60–80 percent. A number of businesses have closed down. The Mexican foreign exchange penalty has all but paralyzed import/export trade between Mexican and American companies. Facing the declining tax revenues, municipalities are having to cut back on services and capital expenditures at a time when their citizens' emergency and social service needs are increasing.

With the concurrent impact of the nationwide recession and declining oil prices further compounding border problems, we find ourselves in the midst of the equivalent of a natural disaster that won't blow away. It will take years to reverse the worse effects of the border crisis. We here in Washington must recognize the damage that is being done both economically and emotionally to border residents and take some steps to help the struggling populace to survive.

At this point, I would like to take a moment to commend the staff in the SBA District office in Harlingen for its commitment to assist border businesses. Because budget cutbacks have limited their staff, SBA personnel have been working long hours to complete loan processing and to provide management assistance and technical advice to borrowers and to other businesses seeking help. They have done a magnificent job.

Notwithstanding the high direct loan interest rates, 853 loan inquiries have been directed to the Harlingen office since the Peso Pack Program began in August 1982 through April 27, 1983. From these inquiries, 396 applications were accepted for processing. Of these, 171 were subsequently declined or withdrawn, 33 were approved for SBA-guaranteed bank loans totalling $5,332,634 (SBA's guaranteed portion), and 182 were approved for direct loans totalling $11,285,300. Ten applications are still being considered.

Surprisingly, despite the deteriorating economic conditions, a number of people have applied to the Harlingen office for direct loan assistance to establish a new business or to expand an existing one. Unfortunately, because of staff shortages, the SBA office in Harlingen has had to give priority to guaranteed bank loan applications and to peso-related loan applications, laying aside all non-peso-related direct loan applications. As all of you well know, small business growth is a vital element in improving the economic climate anywhere and particularly in an area experiencing special economic problems. I urge the Small Business Administration to provide additional staff resources to the SBA offices servicing border areas, so regular direct loan applications can be considered along with existing loan priorities. Loan assistance to viable new or expanding businesses could provide a badly-needed stimulus to the border economy.

In conclusion, Mr. Chairman and members of the subcommittee, I am deeply grateful to you for listening to the sad story about life along the border. I hope others will begin to listen as well. Passage of H.R. 2317 would tell the border populace that we here in Washington do understand the seriousness of the border crisis and that we are taking action to help them.

ADDENDUM TO PREPARED STATEMENT OF E (KIKA) DE LA GARZA

Mr. Chairman, I don't want to leave this hearing without mentioning your excellent bill, H.R. 2583, which I am cosponsoring. Closely allied to my efforts to provide badly needed assistance to a devastated area, H.R. 2583 will establish a more rea-

sonable interest rate on SBA loans to business and home owner disaster victims, along with a number of other constructive provisions. I strongly support your action to reinstate a truly effective SBA disaster assistance program.

Mr. MITCHELL. Thank you, very much.

I certainly concur with you that this is not a regional problem. It is national in its scope. As you know, we had field hearings on this issue. I saw firsthand what was happening. I recall all too vividly the supermarket with 21 cash registers, and no one in the store. It is just devastating.

I give you my word that we are going to move as quickly as possible. The delay has been too long now. I know that the staff will probably express some concern, but I would like to have this ready by the end of May to go to the floor.

I just do not think that we can wait any longer. Even if it means some emergency meetings of the committee. Secondly, it is my full intention to meet with the leadership of the House once we get the bill out of committee, to meet with the leadership, and simply ask the leadership to give it priority.

We will be facing a glut of authorization bills, I know, but it seems to me that the delay has been too long on this.

I just have one question that I will put to all of you.

How do we answer those folks who say if you do it in reference to the peso devaluation, then what is to prevent you from doing it in terms of a poor salmon catch one season up in the Northwest, or the anchovy crisis that they had in Brazil?

In other words, many people have raised this fear, which I think should not be a real fear, that if you start dealing with nonphysical disasters, you run into the problem of definition, and everybody gets into the act.

How would you respond to this?

Mr. UDALL. I think that you treat it the same way that we treat other things. Obviously, in every community today of any size, there would be somebody's house that would burn down somewhere in some town in Missouri.

And you do not go in for an emergency for an individual house burning down. Somebody has to draw a line, and say in the grey area that a disaster has to have this magnitude before we give it this special treatment. I think we could do that kind of definition very readily.

Mr. MITCHELL. Mr. Coleman.

Mr. COLEMAN. I agree with Mr. Udall, Mr. Chairman. I happen to believe that there is such a thing as a sustained problem. A seasonal catch, a shortfall, for example, is very, very different from the economic displacement that has gone on over 2 years.

In fact, it was 1976 that the Mexican administration devalued the peso by 40 percent. It seems to me that we could even utilize the definition of time, if we had to.

Mr. MITCHELL. Congressman de la Garza.

Mr. DE LA GARZA. Mr. Chairman, I agree with them. The reason I drafted my legislation very carefully and concisely in relation to the monetary situation was for that reason. One of the areas where there was criticism of the economic injury of this program when it was expanded had more to do with the media coverage, with all due respect to the media, of the individuals who did not have any snow that year in the ski areas.

And the Small Business Administration considered that a reason for economic injury assistance. Because the owner of one of the resorts in Colorado or someplace had been a member of our body and a high Government official, that got blown way out of proportion.

That criticism is what prompted some of the opposition. But I would say that under present law, and we deal with this every day, if a business suffers for general reasons, and needs more income flow, and so on, either to refurbish or to resupply, he has access to SBA now, and the SBA works with him. He has access to SBA now.

But for purely economical dislocation. I see no help under the present law. That is why I drafted my bill, so that it would apply to the special economic situations. I did not apply it to a situation where there is a drought in Mexico and people who buy some of the Mexican products cannot get them, and they will have dislocation. That is not the type of situation we are trying to help. I did not apply it to natural causes causing the economic dislocation, but purely to an action of a government of an adjoining country where we have no control over it that impacts on the economy. However, I am willing to consider legislation providing a broader reinstatement of economic dislocation assistance, if it is carefully defined so each case is looked at as a special situation.

Mr. **Mitchell**. Thank you, gentlemen. That is my position. We take it case by case. I must say that it looks like the SBA is awfully cautious in terms of spending its money anyway and it would not just willy-nilly approve any request that would come in.

Certainly, the Congress has demonstrated its almost unnecessary bent for curtailing Federal spending. I just do not see any old case flying through. It ought to be judged on the merits. Also I like your point, that it must be a sustained kind of crisis.

Thank you very much, gentlemen.

Mr. **Udall**. Thank you.

Mr. **Coleman**. Thank you.

Mr. **Mitchell**. I am sorry. I did not allow my colleagues to have questions.

Mr. **Boehlert**. No questions.

Mr. **Mitchell**. Mr. Smith, I am sorry.

Mr. **Smith** of Iowa. I do not have any questions. I am just going to remind Mr. de la Garza especially that we had a similar peso problem a few years ago for which they did get disaster relief. I just think that a lot of people just do not understand the disaster program.

It was working so well, and the only thing in the world people got was an opportunity to borrow money to finance their way out of their problems. It was not a gift. We are just talking about loaning people money, at roughly the cost of Government borrowing, for something that is unanticipated.

What is overlooked, too, is that the local bank, if it uses its money for this kind of a purpose, then it does not have the money to loan to other people, who ordinarily are its customers. Thus it disrupts the whole community.

Instead of everybody being so afraid that some individual is going to get a little benefit by getting a 9-percent loan instead of a

12, they ought to think about all of the other effects on the community, too. It is partly our Government's problem, too, you know. We have overvalued dollars as well as the devalued peso.

Mr. **Mitchell.** Gentlemen, I just give you my word, and I think that I probably reflect the thinking of the members of this committee, that we will aim for a target date by the end of May to have this bill out, and ready for the floor.

Mr. **Udall.** I am heartened and encouraged.

Mr. **de la Garza.** We offer you our assistance. I think I can speak for all of my colleagues involved in this issue, that we will be right there behind you, Mr. Chairman.

Mr. **Mitchell.** I might call on you when I go to the leadership asking that it be given the high priority that I think that it deserves.

Thank you, very much, gentlemen.

We have Congressman Ortiz with us. I am delighted that you could be here. Congressman Kazan, my mentor and leader, I think that we will move right into your testimony.

Gentlemen, I know what the schedules are. It is incredible. And I appreciate your taking the time to be here. We have copies of your statements, and, of course, they will be submitted in their entirety for the record.

Thank you, very much. I do not know if you want to proceed by seniority. You make the decision who will lead off.

Mr. **Kazen.** I am at the chairman's mercy.

Mr. **Mitchell.** Thank you, very much.

Mr. Kazen, would you please go ahead with your statement.

TESTIMONY OF HON. ABRAHAM KAZEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **Kazen.** Thank you, Mr. Chairman.

Mr. Chairman, if a hurricane-force wind blew along the Rio Grande, or an earthquake struck anywhere along the border between the United States and Mexico, our country would immediately go to the rescue, as indeed it has in past years during Beulah, and some of the other tornadoes and hurricanes that we have had.

In my view, that is one of the most important functions of the Federal Government, to assist the various States, localities, and individuals in times of emergencies beyond their control.

Picture, if you will, a fire or flood closing hundreds of businesses, and damaging nearly every other firm in town, and contributing to a 28.6-percent rate of unemployment, some 12,000 to 14,000 people in a population less than 100,000.

Imagine a city government forced to lay off 120 employees because of a decrease in revenue. Think about overcrowded free health clinics, and a police department suddenly faced with increased thefts and burglaries.

This, Mr. Chairman, is the situation in my district in the city of Laredo, Tex., my hometown, and much worse in Eagle Pass, which is also in my district and in many of our cities along the border from Brownsville, Tex., to San Diego, Calif. The problem is compounded because this disaster was not caused by fire, flood, wind, or earthquake, but as a result of the drastic fluctuation in the value of currency in Mexico.

The result is equally disastrous, and equally beyond the control of the many Americans who suffer. But under present law, low interest assistance is available for natural disasters, but no longer for economic disasters.

Make no mistake about it, Mr. Chairman, this is a disaster in every sense of the word. Let us talk for a minute about the Small Business Administration, what assistance that it has provided under current law.

During the period from July 1982 and February 1983, Laredo submitted 55 loan applications totaling $6.3 million as a result of the effects of the two unprecedented peso devaluations. SBA approved 22 totaling $2.3 million.

In the Eagle Pass for the same period, there were 28 loan applications totaling $1.7 million, and 12 were approved for $407,500. Let me parenthetically state to you, Mr. Chairman, that Eagle Pass now finds itself with 40 percent unemployment.

This is far from a complete picture of the damage, of course, because many businesses simply did not apply for loans. Either they thought that they would not receive them, or they looked at the rate of interest, and decided against it.

The interest rate in January 1982 was 18.5 percent for guaranteed loans, and 15.5 percent for direct loans. By last December, the rate was down to 14.5 percent for guaranteed loans, and 11.58 percent for direct loans, but these rates are hardly conducive to relief in an area where the delinquency rate on utility bills has increased an estimated 25 percent since the peso devaluation.

As this committee knows, a loan is sent to liquidation when the SBA decides that it can no longer defer action on loans in arrears. Despite a more liberalized policy on liquidation after the devaluation, Laredo has 15 loans headed for liquidation in the last 7 months, and 11 of these were this year.

H.R. 620, the bill which I bring to you today, Mr. Chairman, contains the same provisions which were in effect until they were repealed under Gramm-Latta in the 97th Congress, and Mr. Smith of Iowa referred to that awhile ago.

In 1976, when we suffered from a less disastrous devaluation of the peso, our local businessmen were able to obtain low interest rates which kept them going until the situation improved. This was productive to them, and productive to the Nation.

The bill would assist small businesses located in areas of economic dislocation resulting from the fluctuations in the value of the currency in a country contiguous to the United States upon certification of substantial economic injury, and the fact that financial assistance is not available on reasonable terms.

These loans not to exceed $100,000 per case would be made upon the finding that a significant number of otherwise sound small businesses would go under, or be unable to return to their former level of operation.

I must tell you that it is already too late to assist many of the border small businesses. They are simply gone, and their employees are in the long unemployment lines. Many of those that remain have cut back, regrouped, laid off more people, and are struggling to survive.

For many, it will take years to reach the level of success that they enjoyed before the devaluation. For others, the damage may never be completely overcome. This was contained in the letter sent to me by one of my constituents and I quote: "I know Eagle Pass is not the only one affected by the peso devaluation. I know that it is not only Texas that is being affected either, but if something is not done, the once inhabited border towns will soon become ghost towns."

And a friend of mine in Laredo, an infantry veteran of World War II wrote: "I do work hard, and plan to continue to do so. I do not want to lose my business, so I need help. I have served my country, and now I need just a little help from my country."

When I testified, Mr. Chairman, before this committee last year during the lame duck session, I recounted some of the damage, including sales volumes off as much as 90 percent at some firms, and layoffs as high as 40 percent in some of the larger stores.

I spoke about the virtual collapse of the import and export trade, and the decline of tourism, international bridge system tolls, freight, and construction, and diminished returns from our sales taxes.

I read with some interest Administrator Sander's testimony on this legislation before your committee. His total opposition lies in his belief that the current peso program is working. He says that it is working.

The bottom line of my testimony before you today is that the program is not working. If the severe economic problems of our border areas had disappeared, I would not be here together with my colleagues, and there would be no reason for any of this legislation.

Mr. Chairman, the border is a long way off from Washington, and you cannot see it from here, but I can assure you that the problem did not go away. The hard working people of our border areas simply do not understand why there have not been more done to assist Americans at a time when the Federal Government continues to speed assistance to other areas of emergency around the globe.

Mr. Chairman, and members of the committee, what will we tell them, what is our answer to them?

Mr. Chairman, I appreciate your consideration of this tragic problem, and I urge you to act on this measure as soon as possible. I am delighted to hear the chairman say that one of these bills, or a combination of them, will move out of this committee before the end of the month.

Mr. Chairman, I pledge to you my wholehearted cooperation at any point in the deliberation of this legislation. This is very, very vital, of great importance to me, my district, and truly to the Nation, Mr. Chairman. I thank you for the consideration that you are giving it.

[Congressman Kazen's prepared statement follows:]

PREPARED STATEMENT OF HON. ABRAHAM KAZEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

If a hurricane-force wind blew along the Rio Grande, or an earthquake struck anywhere along the border between the United States and Mexico, our country would immediately go to the rescue. In my view, that is one most important functions of the federal government—to assist the various states, localities and individuals in times of emergencies beyond their control.

Picture if you will a fire or flood closing hundreds of businesses and damaging nearly every other firm in town, contributing to a 28.6 percent rate of unemployment—some 12,000 to 14,000 persons. Imagine a city government forced to lay off 120 employees because of a decrease in revenue, think about overcrowded free health clinics and a police department suddenly faced with increased thefts and burglaries.

This is the situation in my District, in Laredo, Texas, and much worse in Eagle Pass, which is also in my District, and in many of our cities along the border between Brownsville, Texas, and San Diego, California. The problem is compounded because this disaster was not caused by fire, flood, wind or earthquake, but as the result of the drastic fluctuation in the value of currency in Mexico. The result is equally disastrous, and equally beyond the control of the many Americans who suffer, but under present law low interest assistance is available for natural disasters and not for economic disasters.

Make no mistake about it, this is a disaster in every sense of the world.

Let us talk for a minute about the Small Business Administration and what assistance it has provided under current law. During the period from July, 1982, and February, 1983, Laredo submitted 55 loan applications totalling $6.3 million as a result of the effects of the two unprecedented peso devaluations. SBA approved 22, totalling $2.3 million. In Eagle Pass for the same period, there were 28 loan applications totalling $1.7 million, and 12 were approved for $407,500.

This is far from a complete picture of the damage, of course, because many businesses simply did not apply for loans. Either they thought they would not receive them or they looked at the rate of interest and decided against it. The interest rate in January, 1982, was 18⅛ percent for guaranteed loans and 15⅛ percent for direct loans. By last December, the rate was down to 14⅛ percent for guaranteed loans and 11⅝ percent for direct loans, but these rates are hardly conducive to relief in an area where the delinquency rate on utilities bills has increased an estimated 25 percent since the peso devaluation.

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I must tell you that it is already too late to assist many of the border small businesses. They are simply gone—and their employees are in the long unemployment lines. Many of those that remain have cut back, regrouped, laid off more people, and are struggling to survive. For many, it will take years to reach the level of success they enjoyed before the devaluation. For others, the damage may never be completely overcome.

This was contained in a letter sent to me by a constituent: "I know Eagle Pass is not the only one affected by the peso devaluation. I know its not only Texas that is being effected either, but if something is not done, the once inhabited border towns will soon become ghost towns."

A friend of mine in Laredo, an infantry veteran of World War II, wrote: "I do work hard and plan to continue to do so. I do not want to lose my business so I need some help. I have served my country and now I need a little help from my country."

When I testified before this Committee last year, I recounted some of the damage, including sales volumes off as much as 90 percent at some firms, and layoffs as high as 40 percent in some of the larger stores. I spoke about the virtual collapse of the import and export trade, and the decline of tourism, international bridge system tolls, freight and construction, and diminished returns from our sales taxes.

I read with some interest Administrator Sanders' testimony on this legislation. His total opposition lies in his belief that the current Peso Program is working. The bottom line of my testimony is that the program is not working.

If the severe economic problems of our border areas had disappeared, I would not be here today and there would be no reason for the legislation.

The border is a long way off, and you can't see it from here, but I can assure you that the problem did not go away. The hard-working people of our border areas simply do not understand why there has not been more done to assist Americans at a time when the Federal government continues to speed assistance to other areas of emergency around the globe.

Mr. Chairman and members of the committee, what will we tell them? What is our answer? I appreciate your consideration of this tragic problem, and I urge you to act on this measure immediately.

Thank you.

Mr. MITCHELL. Thank you. We are shooting for that target. I just feel very uncomfortable with any delays in moving this legislation, so that we can move it up or down. I hope that it will be voted up by the House.

Can you stay for just a moment?

Mr. KAZEN. Yes, certainly.

Mr. MITCHELL. Congressman Ortiz.

TESTIMONY OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. ORTIZ. Mr. Chairman, I am pleased to address the subcommittee and to have the opportunity along with my colleagues to tell you how important it is that the Small Business Administration reinstate the nonphysical disaster loan program. The area that stretches from Laredo to Brownsville, Tex., contains the three poorest standard metropolitan statistical areas in the country. They are Brownsville, McAllen, and Laredo. The economies of these areas have always been tenuous, dependent upon weather variables, vacation whims of northerners, and the influx of shoppers from Mexico.

The current situation of the devaluation of the peso places a fragile economy under even further strain. The poor in these areas have even fewer outlets pertaining to relief or employment.

Our Mexican border economies are unlike any other economic structure in the country. Few who live away from our border areas are aware of the tremendous economic interchange between the United States and Mexico. Day to day economies are based upon the cross-border shopping exchange.

American shopkeepers have catered to the needs and desires of all economic classes of Mexicans. The devaluation of the peso has altered enormously the picture of merchandizing along this stretch of border. Should the dire situation of our border merchants under the peso devaluation continue unaided by Federal loan assistance? I would hope not.

The fiscal survival of the 1933 Mexican miles along our American border is certainly threatened. I represent the 27th District of Texas. This district extends from Corpus Christi south along the gulf coast to Brownsville. It is an area whose economy is dependent upon fishing, farming, and petrochemicals. In the Brownsville area, shipping, tourism, and merchandising comprise its economic livelihood.

The difference in economic status between Corpus Christi and Brownsville is like night and day. Corpus Christi has an unemployment ratio of about 10 percent. Brownsville is suffering the crippling effects of a 17.4-percent unemployment rate.

Brownsville is a border town. We have maintained an open border, encouraging our Mexican neighbors to frequent Brownsville shops. In December of 1981, at the height of the Christmas shopping season, 880,000 Mexican nationals crossed the bridge to spend their pesos in Brownsville and neighboring communities.

At Christmas time last year, the figures declined by over 200,000. Every facet of business in the merchandising community has been hit by the peso devaluation, from real estate to supermarkets. Free-spending Mexicans own over 40 percent of the real estate on South Pedro Island, a resort community.

Many of these investors are now trying to unload the high-priced properties, thereby depressing the market. A $215,000 condominium now goes for about $165,000. Brownsville merchants of fine jewelry, clothing, and liquor who cater to our wealthy southern neighbors are now closing up and moving away from this area.

Revenues from a major department store declined from $24 million in 1981 to $5 million in 1982. And the small businesses have been the hardest hit. There have been over 30 store closings in the past year, bringing a loss of jobs, tax revenues, and sometimes bankruptcy.

According to a spokesman for the Brownsville Chamber of Commerce, the best barometer of the effects of the peso devaluation is the revenue from sales tax. Brownsville had a 44-percent decline in sales tax revenues from April 1982 to March 1983.

Sales tax revenues are critically needed to maintain vital city services. City managers have cut back in services and, should the situation continue unabated, more cutbacks are inevitable.

The peso devaluation affects the city's social as well as economic welfare. The director of the Brownsville community health clinic reports a 26-percent increase in patients since the first devaluation of the peso. The clinic provides health services to anyone on a sliding fee basis.

Over 50 percent of their patients have earnings at or below the current Federal poverty level. Parents are bringing in their small children unclothed, staff morale is low, and they are terribly overworked. The director also reports a turn-away from preventive treatment to reactive care.

The Brownsville school system is bound by an inability to make capital outlays. Twelve percent of their budget comes from the school property taxes, a no longer stable and dependable source. The superintendent is currently studying service reduction alternatives hoping that he will not have to implement this plan.

Applicants for food stamps in February of this year are up over 19 percent from August of 1982. AFDC applications rose 11.8 percent.

The Small Business Administration originally addressed the resulting problems of foreign currency devaluation in 1976. They again established a program in August of 1982. This was a $200-million direct loan and loan guaranty program for stricken businesses.

The money was left over from other revolving loan programs, and was lent to businesses at the same rate as other SBA loans with a 3-month payback deferral time. In testimony given before this committee last week, James Sanders, the SBA Administrator, told members that of 642 completed applications received, 314 have been accepted for approximately $25 million.

This is less than half of those submitted and only one-eighth of all of the funds available. I am just wondering what the SBA is waiting for. Perhaps their criteria for selection is simply too strong and too stringent.

The businesses that are applying for these loans cannot be judged in the same manner as those applications for the other SBA programs because they are, in fact, in an economic state of emergency.

Before this subcommittee today are several pieces of legislation that would direct the SBA to reinstate modifications to the peso pack program. These are H.R. 620, H.R. 2317, and H.R. 1929. I am a cosponsor of H.R. 1929 introduced by Mr. Udall.

This would target loans to those areas suffering economic hardships caused by foreign currency devaluations, extraordinarily severe and temporary national conditions.

But I am willing to support, Mr. Chairman, any other bill that is now pending before this committee. We must aid our beleagued border areas. The provision of selected funds to targeted areas does not help just businesses that receive the loans, but it will help the entire community in which the business is located.

As a new Congressman, I have traveled extensively throughout my district in order to become better acquainted with it. I live in the northern area of the district which is Corpus Christi. As I travel to the south, it distresses me to see the high unemployment rate in those areas, and people closing down shops, and moving away. The economic depression experienced in the Southern part of the district is clearly and painfully evident.

I agree with Mr. Kazen and my other colleagues here that something has to be done soon, but I do have faith in this committee and its chairman, and know that they will address and exhort the leadership, so that we can find some relief in these areas of south Texas and along the border.

Thank you, Mr. Chairman.

Mr. MITCHELL. I thank both of you. My colleagues have given very eloquent testimony. I merely have one question. I have heard some of the more flinthearted critics of the legislation that we propose argue thusly: That there is a kind of social Darwinism that works in the business world.

Some of the businesses hard hit by the peso devaluation have closed down, and others have not. And they argue that those that close down were not the fittest. They were not going to survive anyway. They further argue that certainly the greatest impact from the peso devaluation has now been felt by this time, and therefore we do not need any stepped up governmental assistance for these businesses.

I hope that I did not prejudice your response by describing those that speak thusly as flinthearted individuals, but I would like to hear your response to that kind of unique social Darwinism Spencerian approach to the disaster.

Mr. **Kazen**. Mr. Chairman, is flinthearted in granite?

Mr. **Mitchell**. Yes.

Mr. **Kazen**. Then the chairman has described it adequately. But, Mr. Chairman, it is true that a lot of the businesses have gone out. They will never come back, as I testified to, but there are some that should be given an opportunity to tide them over.

Now, Mr. Chairman, when we had this program before that the gentleman from Iowa has alluded to and was repealed by Gramm-Latta, we would not be here today if that were in place. And a lot of those businesses, Mr. Chairman, I daresay would still be viable, and would still be in operation.

Now those are gone, and we cannot do anything about them. There are some left. Mr. Chairman, if you employ 100 people, that is a tremendous boost to a small community. That is 100 families, Mr. Chairman, that will not be employed, if they are not given a chance. Not only this, but Mr. Chairman, some of these critics are looking strictly at the border areas, but those areas in your district, Mr. Chairman, in New York, and all over this country that supply those businesses down there are now suffering. They are laying off people, because they do not have an outlet.

Several years ago, Mr. Chairman, if you will indulge me, I went to New York City with one of my merchants from Laredo. Everywhere he went, the doors were open to him, and they knew him. They knew him by reputation. They had never met him.

The moment that he said that he was from the border, from Laredo, they opened up the doors, and said how much do you want. This is how much confidence that they had in him. They are good businessmen, and they are not going to throw good money after bad. They will not make applications, if they do not think that they can make it, and SBA has the discretion to look at these. But let us make the program available for those that can make it, and those that remain.

If they do not use it, fine; they do not lose anything. But there are some out there that have to have it, Mr. Chairman.

Mr. **Mitchell**. Thank you.

Mr. **Ortiz**. The devaluation has certainly hurt everybody, Mr. Chairman. Not only the small businesses, which the critics say would not be able to make it anyway, but I just mentioned a chain store that grossed $24 million in 1981, and in 1982 only $5 million. One of the biggest national chains, and they are moving out because of the severity of the problem.

They could have survived, but there is no way that they could have stayed there, and continue to employ personnel with such a drastic drop in sales without some financial assistance. There are businesses now in the Brownsville area that have already closed shop, a third of the businesses. The others now have reduced employment.

I have talked to some of the members of the business community there. Some of the small businesses which use to employ 15 or 20 people are now down to 3 or 4. But their stores are still open, because as my colleague says, they still have faith.

They have been through this before, but never, never to this degree. I feel that not only are the local school systems and the city services suffering, but everybody throughout the community is suffering. The city managers come to us asking for increased police protection but what can we do? We certainly cannot afford to hire more police officers.

So I feel that the critics, if they were to come down to see what problems we have, would come back with a changed attitude.

Thank you, Mr. Chairman.

Mr. **Mitchell**. Thank you, sir.

Mr. Smith.

Mr. **Smith** of Iowa. I want to thank my colleagues for their testimony, too. Mr. Kazen has referred to it, but to our other colleague from Texas, I might mention since he is new, that we did have a program, as Mr. Kazen said, that worked very well. It was one of the most successful programs that we ever had in the country.

It was not understood by a lot of people. The fact of the matter is that for only $1 a year per person in the United States, net cost, we had a program where people if they had a disaster hit, could borrow the money to finance their way out of it. We did not give them a gift, but they could borrow.

Well, you cannot set up an insurance policy for that. I mean it costs $1 a year to send one letter to somebody. It was the cheapest best-run program that we have ever had. As Mr. Kazen said, it was repealed in Gramm-Latta. I just think that we ought to go back to that program, and use it again for these kinds of purposes.

It is not just the individual that needs to borrow the money. It is the whole community that benefits from it.

Mr. **Kazen**. Very true.

Mr. **Mitchell**. Mr. Daub.

Mr. **Daub**. At the end of last year, we had a hearing, if you will recall, to try to develop some of the legislation that we are now working on. I think that you do have some problems, and the SBA needs to do more than they are doing right now.

I am not sure yet precisely in my own mind what the right way to go is, but I do know that your testimony is very helpful to me, and we appreciate your being here today. The viability of small business along the border and at the base of California is very critical to me.

Because, as you say, it is not just the businesses there and the people who are supported, but indeed it is the supplier network that is a far, far greater reach than people know. The ripple effect that comes from the viable economic activity that small businesses there should be able to enjoy now that I think that the worse is over, and the rebuilding process could commence.

This is a time when some additional help would be most beneficial.

Mr. Chairman, I commend you for holding the hearings, and for allowing our colleagues to come before us today to help us focus by the end of the month on what our decision ought to be, and we appreciate it, very much. Thank you.

Mr. **Kazen**. Let me thank my colleague for his very sympathetic understanding.

Mr. **Ortiz**. Thank you.

Mr. **Mitchell**. Congressman Boehlert.

Mr. **Boehlert**. Just very briefly, Mr. Chairman, I want to say that it is very helpful to me as a new member of the committee to have the benefit of my colleagues experience. I want to thank you for appearing here this morning.

Mr. **Kazen**. Thank you, sir.

Mr. Chairman, thank you, very much. You have been very, very generous.

Mr. **Mitchell**. I thank both of you.

We will now take the California delegation. I was really concerned. I did not know whether the latest disaster in California had tied up the flow of traffic by aircraft. I was really a little concerned whether or not you would be able to make it. But you did make it, and we are most grateful that you did.

Mr. **Panetta**. It points up the need for the legislation.

Mr. **Mitchell**. In a very graphic manner.

What I would like to do is to hear from all three of you. We have your complete testimony, and it will be submitted for the record.

Congresswoman Boxer, would you lead off for us.

TESTIMONY OF HON. BARBARA BOXER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. **Boxer**. Yes, certainly, I will. And I will summarize very briefly, because I think, Mr. Chairman, that you know our problems really well as they relate to disaster aid, or lack thereof as a result of certain restrictions that SBA has placed on their historic excellent programs.

Mr. Chairman, you came out to the San Francisco area about a year ago to hear firsthand some of the real human problems that were being faced by the people there as a result of disastrous floods. I want you to know that our area was declared a disaster area again this year, meaning that we had back to back unbelievably terrible flooding, and the same basic problem of lack of responsiveness from the SBA.

So the bill that I introduced that is cosponsored by approximately 35 Members tries to deal with the problems. Basically what we are saying is that it does not really help much if someone is hit with a disaster and half their home is destroyed, and because they are middle class, and they can qualify for a loan elsewhere, and in our case interest rates were in the 20-percent range, that it does not help to come and declare that the Federal Government has proclaimed a disaster area, and we have all this help.

Many times these people who are homeowners never turn to the Federal Government for help. It is a pretty awful feeling when they do to find that it is really not available. So many of these people that I referred to who are middle class in terms of economic stature wind up taking these very high cost high interest loans, if they can afford it, and it is taking them years to repay, and years to get on their feet, if they are, as I say, fortunate enough to be able to do it.

The other restriction is, and if you know what the cost of housing is out in California, to have a cap of $50,000 is just not realistic. Because many times it costs that to restore maybe a quarter of the damage.

So what my bill really seeks to do, and I know that, Mr. Chairman, that yours goes a long way in the same direction, and I am just pleased that whatever bill does leave this committee, it basically says that the interest rate will be half of prime.

I think that as a concept, it is a good one, because it gives flexibility. It says that we will raise then the artificial ceiling of $50,000 to $100,000, and $10,000 to $20,000 as it relates to personal property damage.

Then it eliminates the credit elsewhere test, so that people can get these loans. For our lower income people who are homeowners, they also face a terrible problem, because that interest rate is still very high. Maybe it was 11 percent for those who even qualified, because they could not get credit elsewhere.

So what I am saying to you, Mr. Chairman, is that it is a real cruel hoax to the people of this country to come out in great fanfare, have the President declare an area a disaster area, and then when it really comes down to it, to see our citizens walk away scratching their head and saying: "I do not believe this, I cannot get one ounce of help."

I am going to complete my testimony now, because you have heard all of this from me before. I come straight out of local government. I was a member of the board of supervisors of Marin County. I was real close to the people. I come out of a community where on my own street four houses have been evacuated, and they may never be lived in again, because people cannot make the necessary arrangements.

What I am saying is that if we are going to have a program, and I strongly think that we should, and that is what we are here for, let us make it a program that works. I will give you all the support I can when it comes to getting our other colleagues to support us either on the bill that I introduced, or a series of others that may emerge from the committee.

I would like to turn this over to Leon Panetta now, because his district has also suffered enormously.

[Congresswoman Boxer's prepared statement follows:]

PREPARED STATEMENT OF HON. BARBARA BOXER A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

When a flood, fire, earthquake or other natural disaster strikes, its impact is usually emotionally as well as physically devastating. However, when a disaster area is proclaimed, the hope that federal assistance will be available can be an important contribution to softening the impact of the loss.

Too often our citizen's hopes are raised only to be dashed when they discover that, in fact, low interest rate loans are not available or the amount available is so small as to be insignificant when compared to the amount of the loss. People who are disaster victims often are people who have little or no occasion to otherwise call upon their government for help. When they finally turn to a federal agency for assistance, after dutifully paying their taxes for many years, it is a bitter experience if some reasonable level of aid is not forthcoming.

I have experienced these problems as a county supervisor representing my constituents in local government and now see the same problems recurring as a Member of Congress. Yesterday's earthquake in my home state has produced an entirely new group of disaster victims, many of whom soon will become frustrated citizens, because of limitations on disaster loans.

I am speaking today in support of H.R. 1375, which I have introduced to amend the Small Business Act sections which provide for disaster relief. Currently the amount of money available to individuals has been capped administratively since 1971 at $50,000 for real property and $10,000 for personal property, not to exceed a total of $55,000. Given the rate of inflation, these amounts are unrealistic for most people. I propose to increase the cap on loans to individuals to $100,000 for real property and $20,000 for personal property, not to exceed $120,000.

Further, my bill would eliminate the "credit elsewhere" test which allows only those persons who cannot obtain a private loan to take advantage of the lower SBA administered interest rate and would set the rate at half of the prime in high interest periods. The same rate would apply for business loans.

This legislation will truly result in assistance to our citizens hit by disaster, with a minimum of red tape. I urge your committee to address this important issue and provide the relief which our good citizens need and deserve.

Thank you for the opportunity to address you today.

TESTIMONY OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. PANETTA. Mr. Chairman, I thank you for holding these hearings, and allowing us to testify. You had the opportunity to visit my district last year, and hear firsthand the particular problems involved in disaster assistance loans.

As Barbara has pointed out, California has been a victim of a disaster declaration for the last 2 years. Last year in my district, we lost unfortunately about 26 lives. This year, that did not happen, thank God. But we incurred almost $30 million worth of property damage this year, and we had almost $20 million in property damage last year.

The problem, as you know, is that there is a promise in disaster assistance. There is no reason to have a disaster program unless there is a promise that you are going to try to help people get back on their feet. That promise is there when the President makes the declaration.

People feel that some relief is finally on the way. Unfortunately, that does not happen. Instead of the promise being for immediate, adequate, and direct aid, what happens is that the natural disaster becomes a bureaucratic disaster.

The result is that people who really want to get help simply do not get it. It happened terribly last year. People suffered damage to their homes and to their businesses and thought that there would be some relief until they found out that 16 percent interest rates were going to be provided on the loans, and particularly that there was a limitation on the amount that would go for their home damage of $55,000.

The average cost of the homes in my area is about $100,000, and the SBA loans simply provided no relief and tremendous frustration.

This year, frankly, I told the people in my district not to count on it. We have got the declaration, and they are going to promise you SBA assistance, but we went through this last year, and I am telling you no assistance will make you whole, and do not expect that there is going to be a large amount of relief.

The fact is that even with that kind of warning, people still sense a great frustration when they find out what the interest rates are and the limitations.

I do not blame the people at SBA. Frankly, the people at SBA have been very helpful, and have bent over backwards to try to assist people. But with the kind of requirements both in terms of interest rates and limitations that are asserted, they just simply are not providing very much help at all.

And so, I would just ask you whether you adopt Barbara Boxer's bill, or whether you move the chairman's bill, move something to make the promise real.

Mr. **Mitchell**. Thank you.

Just before you began your testimony, let me again state, because I want to keep putting it on the record, that I just conferred with Congressman Daub, and it is my objective to have this bill out of committee by the end of May.

Mr. **Panetta**. Terrific.

Mr. **Mitchell**. To the other witnesses who were here earlier, your colleagues, I said that not only is that our objective, but once that it is out of committee, we will then go to the leadership of the House, and ask that it be given a high priority.

One whole year is just too long. It is just too long. I just wanted to put that in the record. I did not mean to delay your testimony.

[Congressman Panetta's prepared statement follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, first of all let me express my thanks to you for holding this hearing to receive testimony regarding provisions of the disaster assistance program under the jurisdiction of the Small Business Administration. Unfortunately, but the simple fact is that the operation of our country's federal disaster assistance program only receives prominent attention and vital consideration after the occurrence of major natural catastrophes. I think it is important that we continue discussions regarding our disaster program to ensure that needed assistance will be available to businesses and families after they have experienced the devastation of a natural disaster.

Mr. Chairman, as you well know from testimony received at the field hearing your committee held last year in Santa Cruz, California, in my congressional district, to review the problems this area had experienced with the disaster assistance program, a number of problems existed. Let me again thank you for bringing your committee to my area. Unfortunately, but for the past few years my area has experienced the horrors of excessive flooding, rainfall, and mudslides on an annual basis. Each year, residents of this area have found assistance offered by the Small Business Administration to be lacking in the simple ability to help them fully meet the demands and pressures caused by the disaster. In 1982, interest rates on SBA disaster loans to homeowners with credit elsewhere were 16 percent. Fortunately, interest rates for the disaster our area experienced this year were lower. The lowering of interest rates in general was the key factor for this development, however, 10, 11, and 12 percent interest rates are still too high and are virtually unaffordable for persons trying to recover from a disaster. Too often, hopes of recovery are dashed with the presence of high interest rates charged on loans.

Moreover, the loan limits on these loans very rarely adequately reflect the actual cost of housing. The current cap amount of $55,000 on loans to individuals for real property damage does not cover the damage to housing. The Census Bureau indicated recently that results of its 1980 census indicated that the median housing price for owner occupied housing in my congressional district, the 16th Congressional District, is $88,800. The loan limits on SBA disaster loans further serve to hamper the ability of families to return conditions back to normal.

To address the problems which I have cited, and to provide long relief to persons in need of disaster assistance, I have cosponsored legislation introduced by our colleague, Representative Barbara Boxer. The legislation introduced by Representative Boxer, as she has previously discussed, would eliminate the "credit elsewhere" test for SBA disaster loans and would set the interest rate at 50 percent of the prime rate. This rate would apply to homeowners as well as for businesses. In addition, this legislation would raise the loan amount from the current limit of $55,000 for a loan covering real property and personal property to $100,000 for real property and $20,000 for personal property, not to exceed $120,000.

Also, Mr. Chairman, I am pleased to have cosponsored your legislation to address the very real issues which exist involving loans under the SBA disaster assistance program. While your legislation would retain the "credit elsewhere" test, the interest rates of 4 and 8 percent for homeowners and businesses who are unable to obtain credit elsewhere and for those who can obtain credit elsewhere respectively, will certainly provide disaster victims with more reasonable assurances that they will be able to afford to repair their homes and businesses. In addition, the provision in your legislation to restore the maximum loan amount for business to equal 100 percent of the net loss will ensure that proper coverage is made available to damaged businesses.

I think we all here recognize the purpose of the federal disaster assistance program. Clearly, it has been designed to provide immediate and necessary assistance to communities and their residents in times of crisis. The programs administered by the SBA as well as the Federal Emergency Management Agency are vital in supplementing the resources of local and state governments. The very essence of this program is to help disaster victims in their efforts to repair damages and return disastrous situations back to normal.

As a member of the House Budget Committee, I fully recognize the limitations which the federal budget must operate under at this time. This situation certainly requires that all areas of the federal budget be closely scrutinized, and wherever possible, cost effective measures be put in place. However, as the issue of disaster assistance is discussed, we must ask ourselves whether disaster assistance does anything to help people if it does not provide immediate, adequate, and direct help. Once we have made the basic policy decision at the federal level, that assistance should be provided to disaster victims, assistance should be delivered as efficiently as possible.

In conclusion, there are a number of difficult issues which must be addressed in the area of disaster assistance. Trying to ensure that needed assistance is provided to disaster victims, while at the same time, recognizing federal budgetary constraints will be a difficult task. But, I do hope that our disaster assistance efforts in the future, will meet the urgent demands of victims left homeless, oftentimes injured, without food or clothes. The sole purpose of disaster aid is to help these people at their greatest time of need—it is not to add another disaster of redtape and bureaucracy to their burden. I trust that your committee, Mr. Chairman, will move quickly to report legislation to the full House which will restore much needed and proper assistance to the SBA disaster loan program. Again, thank you for providing me with the opportunity to testify this morning.

TESTIMONY OF HON. SAM GEJDENSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. GEJDENSON. Thank you, Mr. Chairman. Let me join my colleagues in applauding the committee, and especially you, for taking a leading role on this issue. We in Connecticut faced a major flood disaster in June 1982. And I think that I was caught in the same position as many of my constituents.

I really felt that the Federal Government, because of past years of experience, would come in, and be able to help. Changes in the law with the credit elsewhere test frustrated the people's attempts to put their lives together again.

It creates a situation where those people who have to some degree been able to protect themselves, or have some abilities for financing, are disadvantaged in competing with others in the same business, who are maybe in worse financial shape on the books.

So you end up with two businesses trying to provide the same service, one having a tremendous advantage over the other. One of the things that Senator Dodd and I did after the bureaucratic disaster was to ask for a report on how the flood crisis was handled, and what happened. And I would like to give the report to the committee, and ask you to look it over.

In that report, we found some very interesting things. There was about $289 million worth of damage in Connecticut and 10 lives were lost. The GAO report analyzes the Federal response and gives us some conclusions that I think are particularly interesting.

[Pertinent part of the GAO report referred to above follows:]

SBA's Role in Providing Disaster Assistance

SBA is one of a number of Federal agencies authorized to provide disaster relief under its own statutory authority (Public Law 85-536). SBA offers loans to home or property owners, businesses, and nonprofit institutions who have suffered physical damages to property as a result of a disaster. SBA can also offer loans to businesses who have suffered substantial economic injury sustained as a result of a national disaster. The disaster loan program is intended to supplement State and local government aid and to provide an orderly and continuing method of rendering disaster assistance to States and local governments. In contrast to FEMA's disaster assistance program, SBA can offer assistance without a Presidential disaster declaration.

The sizes of SBA disaster loans are limited as far as are their maturities. Under the SBA act, business physical disaster loans cannot exceed $500,000 nor can they be greater than 85 percent of the loss. Homeowner physical disaster loans can be made for 100 percent of the loss but, under SBA regulations, cannot exceed $50,000 for the repair of the land and building, and $10,000 for contents, or a combined total of $55,000. SBA can increase the homeowner limit if it deems necessary and the applicant is found eligible for a larger loan. According to SBA's Deputy Associate Administrator in charge of disaster loans, the limitation on homeowner loans is being considered by the Congress and may be increased to $300,000 in 1983. According to SBA officials in Connecticut, only one homeowner applied for a disaster loan which would have exceeded the $55,000 limit. It was subsequently determined that the homeowner had flood insurance, would be forced to relocate, and was eligible for a $5,000 grant under the Disaster Relief Act. This loan application was withdrawn. Maximum maturity of all disaster loans is 30 years.

Since being passed in 1958, the SBA act has been amended to specify the interest rate for disaster loans and whether disaster loans are intended to be available to all disaster victims even though they can obtain loans from commercial sources. As originally enacted, the SBA act was silent on this last point. In 1981, a Senate bill was introduced (S. 1377) which would have amended the SBA act. The proposal, which, according to the Deputy Associate Administrator of SBA, was authored by the Administration, would have restricted physical disaster loans to those homeowners and businesses unable to obtain credit from commercial sources. It also would have increased the interest rate charged on such loans. During its consideration of the bill, the Congress modified it and incorporated it into the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). As a result of this legislation, SBA cannot restrict physical disaster loan eligibility on the basis of whether applicants can obtain credit elsewhere. SBA is required though, to determine if the applicant could obtain credit elsewhere in order to arrive at the interest rate charged on the loan.

The 1981 act also prescribes the basis for such interest rates. For a business determined able to obtain credit elsewhere, the interest rate is the rate prevailing in the private market for similar loans. Such loans are limited to a maximum term of 3 years. For businesses determined unable to obtain credit elsewhere, the rate prescribed is a rate set by SBA but not to exceed 8 percent. Such loans have a maximum maturity of 30 years. For homeowners able to secure credit elsewhere, rates are based on the current average market yield on outstanding marketable obligations of the United States plus an additional charge of not to exceed 1 percent. Homeowners unable to secure credit elsewhere are charged a rate based on one half the homeowner credit elsewhere rate but not to exceed 8 percent. All the above interest rates are based on the rate prevailing on the date of the disaster declaration.

The 1981 act also allows SBA to determine whether or not these provisions would impose a substantial hardship on the applicant. SBA can grant a physical disaster loan to an applicant it determines can obtain credit elsewhere at the lower rate if it believes that the higher rate would cause undue hardship for the applicant. An example of this would be an applicant who is age 64 and will retire in 1 year. Based on current income he can get credit elsewhere, but because of his impending retirement, payback at the higher rate would create a hardship.

In the event of a disaster, SBA procedures call for SBA to establish loan offices in the disaster area and accept disaster loans. Applicants are interviewed and are either given a homeowners or a business loan application or they are "desk-declined" because they are not deemed credit worthy. In this regard, disaster victims who sustain only personal property damage and who are unemployed and whose principal source of income (over 50 percent) is derived solely from welfare payments or social security payments, are presumed to lack ability to repay an SBA loan. These individuals are eligible to receive grants of up to $5,000 under FEMA's individual and family grant program authorized by the Disaster Relief Act.

After receipt of an applicant's completed application, SBA determines the interest rate to be charged and other terms of the loan. SBA procedures implementing the credit elsewhere provision require SBA loan officers to conduct a series of tests using the applicant's financial statement to determine whether the applicant could obtain credit elsewhere. The first test—the "cash flow test"—assesses whether or not the applicant's cash flow (after deducting living expenses and other debts) could support the loan eligibility at the prime rate. If the cash available for debt service can support the loan, the applicant is deemed to have credit elsewhere and the loan is authorized at the higher rate. If the applicant cannot support the loan with cash flow, SBA loan officers subject the applicant's financial statement to the "other assets test." If available net assets (current market value of assets less outstanding liens, excluding residence and furnishings) are greater than 150 percent of loan eligibility, the applicant is deemed to have credit elsewhere and the loan is made at the higher rate. If the applicant does not pass the cash flow test and also fails to pass the other assets test, the loan is made at the lower rate.

SBA's disaster loan office generally accepts applications for physical disaster loans up to 60 days after the date of the declaration. However, the regional office can direct that SBA loan officials remain in a disaster area longer than 60 days to accept late applications. In addition, SBA accepts applications for economic injury disaster loans from businesses up to 9 months after its declaration. According to SBA loan officers in Connecticut, the bulk of the physical disaster loan applications were received the last week of SBA's 60-day period. At the time of our review SBA was still accepting late applications even though August 14, 1982, was the 60-day filing deadline. It has only received two applications for economic injury disaster loans.

According to the Deputy Associate Administrator, SBA, loan officials interviewed approximately 4,200 potential applicants for physical disaster loans following the Connecticut disaster. About 740 of these were desk declined because of ineligibility. Of those applications submitted, the following tables summarize the number and types received, the status of accepted applications, and the amount and applicable interest rates charged on approved loans as of October 29, 1982. Because the number of economic injury loan applications filed, to date, is so small, they are not included in the tables. Of those physical disaster loans approved for disbursement, over one-third have yet to be disbursed because applicants have not returned closing documents or authorization papers.

LOAN APPLICATIONS RECEIVED BY SBA FOLLOWING CONNECTICUT DISASTER AS OF OCT. 29, 1982

Applications	Home loans	Business loans [1]	Total loans
Accepted	1,540	411	1,951
Approved	876	227	1,103
Withdrawn	91	62	153
Declined	528	95	623
Total	1,495	384	1,879
Pending			72

[1] Excludes economic injury loans.

APPLICATIONS ACCEPTED FOR PROCESSING

	Home	Business	Total
Before Aug. 14, 1982	1,023	233	1,256
Between Aug. 14, 1982 and Oct. 29, 1982	517	178	695

APPLICATIONS ACCEPTED FOR PROCESSING—Continued

	Home	Business	Total
Total	1,540	411	1,951

Note: SBA estimates that about 45 percent of the 1,951 applications were received during the week Aug. 9–13.

AVERAGE LOAN AMOUNT FOR APPROVED LOANS

	Total loan amounts (rounded)	Number of loans	Average loan amount
Home	$6,100,000	876	$6,963
Business	8,520,000	227	37,533
Total	14,620,000	1,103	13,255

RATES AND AMOUNT OF APPROVED LOANS

	Home loans		Business loans		Total loans	
	Number	Amount (thousands)	Number	Amount (thousands)	Number	Amount (thousands)
High rate	329	$1,826	39	$1,012	368	$2,838
Low rate	547	4,274	188	7,508	735	11,782
Total					1,103	14,620

DISBURSEMENT OF LOAN PROCEEDS

	Home loans	Business loans	Total
Fully disbursed	335	56	391
Partially disbursed	72	38	110
No disbursement	339	126	465
Canceled	130	7	137
Total	876	227	1,103

Mr. GEJDENSON. The entire savings before tax credits are counted is 2 percent of the total loans. In other words, even before the individuals who were asked to pay 16 percent interest deducted their interest payments from their taxes, there was a 2-percent savings.

There was an additional 368 hours to process the applications, and the SBA officials estimated that the test increased loan procedure time by as much as 25 percent. Business individuals trying to rebuild their business were forced to deal with a program that oftentimes ate up enormous amounts of their time.

And at the end of their investment in time, it was clear that the Federal Government was not in a position to provide them any assistance. They would have been better off if they had gone and got a shovel, and a hammer, or whatever, and gone back to working on their own building, and never stopped by to see the Federal Government.

My proposal in H.R. 1779 is very similar to what my colleagues from California and what the chairman is talking about. We would strike the credit-elsewhere test, get rid of the provision requiring high interest business loans to be repaid within the 3 years, and set interest rates at one-half of the market rate of Government securities with up to 1 percent for administrative costs and a cap at 8 percent.

Since this provision is similar to the existing SBA loan interest rate formula, the bill would not require any adjustments in SBA's current procedures. It is simple, it is clean, and I think that it would help do the job.

What we saw in our districts, and anyone who has had a flood has clearly seen the same situation, is that victims of natural disasters expect the Government when it comes in to give them some assistance to get through the crisis.

They take a lot of the burden personally. But to then tell them that the Government's assistance is going to be 16 or 20 percent, that is no help at all. We in Congress have to move very swiftly. Anybody who has been near a disaster knows that the credit-elsewhere test is really a cruel hoax on the public and on businesses around the country.

Thank you.

[Congressman Gejdenson's prepared statement follows:]

PREPARED STATEMENT OF HON. SAM GEJDENSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. Chairman and members of the subcommittee, thank you for inviting me here today to testify on my bill, H.R. 1779, that would repeal the credit elsewhere test for use in determining eligibility for low interest federal disaster loans. My bill would also place a cap on the level of interest that could be charged for these loans.

The modest savings achieved through charging higher interest rates on federal disaster aid do not, in my opinion, justify the suffering they inflict on disaster victims or the delay they cause in recovery.

Recent events in Connecticut prove my point.

A CASE STUDY

In June of 1982, the State of Connecticut suffered the worst floods in nearly a century. The disaster took the lives of 10 residents and caused an estimated $289 million in damages. Dozens of bridges, homes, and businesses were washed away by water from bursting dams and heavy rains. Because of the storm's severity, the president delared the state a major disaster area.

There was a general impression following the declaration that the federal government would be awarding low interest loans to anyone who qualified for disaster assistance. What most eligible residents did not know was that proposals of the current administration, which were enacted as part of the 1981 budget reconciliation act, had changed the law to incorporate a "credit elsewhere test." In other words, low interest loans are no longer awarded to those individuals or businesses who can obtain credit elsewhere.

I know of many business owners and homeowners who were outraged to learn that they were ineligible for low interest federal loans because they had maintained good credit standing. Instead of loans at 8 percent, they were offered federal assistance at the market rate of 16 percent. Many of these residents, understandably, felt cheated by promises of federal assistance and punished for having remained creditworthy.

At Senator Chris Dodd's and my request, the General Accounting Office conducted a study that, in part, examined the effectiveness of the credit elsewhere test. I would like to submit the pertinent sections for the record.

The report showed that of the 1,103 loan applications approved by the Small Business Administration, 37 percent of the loans and 17 percent of the business loans were at the high rate. Charging the higher rate, the GAO estimated, would save the federal government $224,000 during the first year of the loans. This savings represents less than 2 percent of the total amount loaned to businesses and individuals in Connecticut. The savings to the federal government are further reduced after taking into account the fact that interest payments may be deducted from federal income tax. In addition, the GAO calculated that it took the SBA staff an additional 368 hours to process the 1100 applications using the credit elsewhere test. One SBA official estimated that the test increased loan processing time by as much as 25 percent.

We should also consider the possible delay in recovery caused by the credit elsewhere test. If business managers are faced with rebuilding their operations at 16 percent interest, either with federal or commercial loans, they may likely scale down their plans or decide to postpone reconstruction. This decision could have a negative impact on both the local tax base and employment.

Businesses are further dissuaded from accepting high interest federal disaster loans by the requirement that such loans be repaid within three years, in contrast with the usual 30-year term of low interest loans. This provision helps explain why so few businesses in Connecticut accepted high interest federal loans. I know of few business owners that could afford to take out a substantial loan on such capital-draining terms.

My bill would repeal the credit elsewhere test and strike the three-year provision. It would require that the interest rate charged for disaster loans be set at one-half of the market rate of government securities, with up to 1 percent added for administrative costs. Since this provision is similar to the existing SBA low interest rate formula, my bill would not require any adjustments in SBA's current decision-making process.

This legislation would also place a cap at 8 percent interest from both home and business loans. The credit elsewhere test proved particularly burdensome last year because of the extremely high prevailing interest rate. Though SBA makes exceptions for the elderly and other cases in which the higher interest rate would pose a hardship, I would argue that an interest rate of 16 percent is quite a hardship for almost anyone.

As a matter of fairness, the credit elsewhere test should be repealed. The test deprives those individuals and businesses that have maintained good credit standing from the sort of aid offered to their less credit-worthy neighbors and competitors.

As a matter of policy, I think that it only makes sense to bring about economic recovery as expeditiously as possible. By doing so, we not only alleviate hardship, but we help restore the tax base for local, state, and federal governments.

This legislation that I have offered would prevent the problems we experienced in Connecticut from occurring in other states and would provide more equitable assistance to all victims of natural disasters.

Thank you for listening to my comments today.

Mr. MITCHELL. I thank all of you. You know where I stand on this legislation. I would favor striking the credit elsewhere test. There are those who will argue that if you do that, then the fat cats are going to take advantage of this program. They would argue that by striking the credit elsewhere test, you really interfere with the normal workings of lending institutions.

I just do not believe those arguments. I just do not believe that they hold any water. And we are going to fight very hard to eliminate the credit elsewhere test.

Congressman Daub.

Mr. DAUB. Mr. Chairman, there will be a fight. But it is not going to be the same kind of a fight. Because you have to go back historically, and first of all know where credit elsewhere came from. You go back first of all to the whole process that these loans originally more than often satisfied the farm disaster questions as opposed to the city and urban disaster problems.

You have to go back, and look at the history of the language. And so it was not so much a fight even before. But it was the fact that the old rules were that when you did have an urban-type disaster, you found out that you had the opportunity to go, but the requirement was that you had to pay it all back in 4 months.

So it was the process of evolving some change, and it went to credit elsewhere. Well, I think indeed that you do not keep your records on the second story when the flood comes. So you have a problem getting the process done. I think that we have learned a lesson from that.

We are not saying that credit elsewhere was perfect, but it was a change. The other thing that I want to put on the record is as we work through the process of getting something reported out that will help, we should remember, and I can say this because I come from farm country, that we are going to have to limit the access and the words to a degree.

Because if you go back and look at the history, you had the whole program that made the volume of $300 million available, and within 2 years when farmers were allowed in, it went to $2.6 billion just like that. And it was broad, very broad, very accessible. I appreciate the fact that there was some value there.

But by the same token, when we went back to farmers being out, it went back to $400 million. We did not drop to where we were, but it was a little more manageable. So credit elsewhere was sort of a treaty with FHA.

And if we are not careful about the words that we do end up with, we will end up putting FHA-type farmers back in the SBA-type loan programs. And we will have a problem of a lot of what we are trying to target is not going to realize the potential that we are after.

So it is not really an argument. Sometimes when there is flint, Mr. Chairman, you can strike it with steel and get a spark, and you build a fire. So I want to offer that opportunity.

Mr. MITCHELL. That gives me an idea.

Mr. DAUB. Well, I was giving you one, because indeed sometimes I think that people misunderstand. If you take a look today at the marketplace, as our last colleague testified, if you look at no credit elsewhere, with your homeowner at 5.75 percent and your business at 8 percent; now you look at credit elsewhere, the opposite of that, and you have 10.5 percent for the homeowner, and 10.5 percent for the business.

A year ago, as you well pointed out, we were looking at 9 and 10 percent in the no credit elsewhere, and 16 and 18 percent in the opposite. Just the function of the marketplace cost of money changing has brought things into a little bit better situation.

I do not know with the interest rates dropping, and the national cost of money dropping, that if we are careful about defining who is accessing the money that we would like to make available.

Mr. GEJDENSON. What you just pointed out just further argues for changing the credit elsewhere test. Because what you are doing is forcing a business, and I think that it is easiest to explain in the business sense, at its worst point, when it has just been wiped out, to assume very high interest rates.

Perhaps you are right to say that if there businesses could survive the next 3 years, the marketplace would over the long haul level out interest rates. Businesses could then refinance and make it.

This is what Government is really all about: to spread the risk of natural disasters, so that when it is us, our neighbors help us; and when it is you, we help you to get over that rough period. Now most people who would have gotten the standard rate without the credit elsewhere could go to the marketplace and do just about the same.

Mr. **Daub**. Or cheaper.

Mr. **Gejdenson**. Or cheaper, and that is important.

Mr. **Daub**. Again amplifying your point, because it is your testimony that brought it to mind, I was only pointing out that the problem is access again. If we are careful, and I am saying it again with a little bit of impunity, because I represent farm-agriculture interests.

The big problem that even I had to admit 1 year and 2 years ago was this terrific amount of broad definition that did not let the physical and nonphysical disaster money go where it really ought to go.

Mr. **Gejdenson**. In our district, in our State, 37 percent of the home loans and 17 percent of the business loans were at the high interest rate. The credit elsewhere test made for some very significant problems.

Mr. **Daub**. Mr. Chairman, I have nothing more to say, except to thank each of you for your helpful testimony. We know the problems that you face, and you are representing your constituents well, and I commend you for your testimony.

Mr. **Panetta**. I understand your historical perspective, because when I looked into it, I ran into the same problem. I would just urge you to make some changes, or get rid of the program, because if you are going to have a disaster program, you have got to make some changes.

Mr. **Gejdenson**. I too would argue that you ought to get rid of the program rather than keep it the way it is.

Mrs. **Boxer**. Yes, I would, too.

Mr. **Gejdenson**. Many of our people walked in for Federal aid at the lowest point in their lives. Their homes and businesses had just been wiped out. They thought the Government was going to help them get through this. They then spent 3 days sitting with State employees and Federal employees who tried to do everything they could.

And at the end of that period they said, yes, the Government is going to help you. We have a 16-percent loan for you, or else go someplace else.

Mr. **Mitchell**. It is a shattering traumatic experience for people——

Mrs. **Boxer**. It is.

Mr. **Mitchell**. Who have confidence in their Government.

Mrs. **Boxer**. Mr. Chairman, these are people who basically do not turn to Government, generally speaking. That is the thing. So I think that I would agree with my colleagues, that it is better to just wipe the program out, or just say that it is a disaster loan for poorer people.

Let us call it that. That is okay, if that is what we want to do. Say that it is a disaster loan for people in such and such a range of income. But do not come out there, and have the President come out, and us come out, and you come out, and nothing happens.

Mr. **Mitchell**. I just would feel very strongly against attempting to limit it to a given socioeconomic group.

Mrs. **Boxer**. Absolutely.

Mr. MITCHELL. It would be a serious mistake.

Mrs. BOXER. I am with you.

Mr. DAUB. Mr. Chairman, if I might add to my colleague's comment. I guess that I do want to be careful, and it is a philosophical thing, that in the process of using the Government guarantee, the first and most important part of any kind of aid that can be offered from taxpayers' money to come along behind that without a process, I do not know, even in the long-term averaging up, letting the borrower either coming back up to market eventually when they are back on their feet, or refinance at a lower rate.

You know, you are always going to set the rate, whatever you set it, even half the prime. For some period of time, you may be over that, and some period of time in the process of loan, you may be under it.

The mechanism could be very clear, simply put an averaging provision in. I just want the Government not to be ultimately guaranteeing, and so far below the neighbor's cost, if they were defined in poor or middle income.

I guess that I am going to have to go with your comment. I think that it would be very difficult to make it a poor people's program, or a less-than-so-much net worth program. If it is really a disaster, I want to help them out of their disaster.

Mrs. BOXER. I am with you. That is my point. In other words, our point is right, we do not want to see that happen. But if nothing is done, that is what we in fact have, and let us call it what it is. And let us not call it a general disaster relief program, because it is not.

Mr. GEJDENSON. It is a fraud. It is a fraud to most people who are affected by the program.

Mrs. BOXER. Yes, it really is.

Mr. GEJDESON. Because most people are excluded from any real assistance by Government.

Mr. DAUB. To summarize my point with you, the guarantee is critical. That is something that we really have got to have. That is the primary function of Government, and that sometimes should be enough for some people.

Mrs. BOXER. The guarantee is not a problem.

Well, thank you so much.

Mr. MITCHELL. I thank both of you, very much.

Mrs. BOXER. Thank you.

Mr. MITCHELL. Congressman Bates and Congressman Gore have been delayed in travel. We do have copies of their statements. And the statements of both of those members will be submitted for the record as of right now.

[Congressmen Bates' and Gore's prepared statements follow:]

PREPARED STATEMENT OF HON. JIM BATES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

I would like to thank you for the opportunity to express my views on House Bill 1593. This bill proposes to amend the Small Business Act to provide assistance to areas experiencing severe economic hardship in the United States resulting from a drastic fluctuation in the value of currency in a neighboring country.

Currently, the Southwest portion of our nation is experiencing a severe economic crisis as a result of economic measures forced on the Mexican Government. Through international actions, no fault of their own, American Businesses are suffering and need assistance.

Injured by a sharp decline in oil prices, international recession, and other economic imbalances in their economy, Mexico has devaluated its Peso by 67 percent to the dollar over a two year period. The weakening of the Peso has caused a ripple effect that is felt all throughout the Southwest portion of our nation.

Not unlike enduring the short and long term effects of a physical disaster, small businesses along the Mexican border are suffering from the disasterous effects of the Peso devaluation. There are over 80 small businesses effected in the 44th District alone. Many of these businesses have already folded and others cannot produce the necessary collateral to obtain loans from banks, savings and loan companies, or from the existing loan programs under the Small Business Association loan program.

House Bill 1593 would help these small businesses to maintain the stability needed to survive their current economic problem. I urge your support for this legislation.

PREPARED STATEMENT OF HON. ALBERT GORE, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

I first came to a cold realization of the state of our nation's disaster programs when my home state was hit by torrential rains in late summer, 1982. While general flooding seems indigenous to many parts of the Mississippi River basin, flash flooding presents the greatest threat in many parts of Tennessee.

When homes, businesses, and farms were wiped out, relatives, friends, and neighbors chipped in to help. The Federal Emergency Management Administration set up shop almost right away.

But the flood victims soon came to the realization that our nation's disaster programs were not as we believed. Our government had become so tight that many in genuine need found no aid, no assistance, no hope.

I met with many of the residents affected. They were frustrated. They were disappointed. They were angry, Why, when only a few years before, in a nearby town, had the Small Business Administration and other agencies been able to help through substantial credit, and why, now, did so few qualify for anything but exorbitantly priced credit?

There had been many improvements in the law, legitimate responses to problems many of us are familiar with. But, even before those improvements had been thoroughly tested, a new administration suggested many further "improvements."

The results speak for themselves. Declarations, eligible families and businesses, and expenditures are down. Surely restraint is admirable, but we have come to the point where our residents feel let down. Let's make some real improvements.

There are many approaches to the problem of controlling expenditures. Adjusting the availability of credit and the cost of credit have both drawn a number of suggestions. Under the current administration of the law, there has been a great amount of zeal devoted to making credit available only to those in truly great need. Through administrative interpretation, the flow of credit can be restricted. I would like to encourage the Committee to offer some interpretive guidance in reply. Whether through report language or law, the issue of credit availability needs attention.

The cost of credit offered to disaster victims once eligibility has been determined has skyrocketed over the past few years. Not only has the poor state of the economy forced many from business under average circumstances, thousands brought near the brink of financial ruin were pushed over the edge by disasters when a good disaster loan rate might have saved them.

A small businessman steering a conservative course in a stagnant economy may not survive if he must suddenly assume credit for disaster losses at the exorbitant rates now prevalent in our economy.

The disaster loan rates must not burden disaster victims with the problems of the economy as a whole. They are special. They do deserve better.

My own legislation, introduced last year and reinforced this session, focuses on this facet. Somehow, we must protect those hit by natural mishaps from being also hurt by economic variables.

Mr. Chairman, I am very pleased that the Committee is bringing attention to this area of the law and I intend to do what I can to help form a consensus for change. Thank you.

Mr. MITCHELL. Unless there are any further statements, this hearing is now adjourned.

[Whereupon, at 10:25 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIXES

APPENDIX A

98TH CONGRESS
1ST SESSION

H. R. 403

To provide the Small Business Administration with additional authority to assist small business concerns in obtaining financing, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 3, 1983

Mr. SMITH of Iowa introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To provide the Small Business Administration with additional authority to assist small business concerns in obtaining financing, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Section 7(a)(3) of the Small Business Act is amended by striking "$500,000" and by inserting "$750,000".

SEC. 2. Section 7(a)(4) of the Small Business Act is amended by striking the following: "and an additional amount as determined by the Administration, but not to exceed 1 per centum per annum".

SEC. 3. Section 7(a) of the Small Business Act is amended by adding the following new subsection:

"(16)(A) any loan made under this subsection (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) may, upon the joint election of the borrower, Administration, and lender, as the case may be, provide for the payment of interest only, during the—

"(i) first two years of its term if such term is at least eight years;

"(ii) first three years of its term if such term is at least ten years; and

"(iii) first four years of its term if such term is at least fifteen years.

At the conclusion of the period of interest-only payments, the loan agreement shall provide for amortization of the loan principal in equal payments of principal and interest during the remainder of the term of the loan.

"(B) with respect to loans made under this subparagraph, a bank or lending institution may charge, in addition to any interest, fee, or service charge otherwise permissible pursuant to this Act and relevant regulations, promulgated pursuant thereto, a one-time fee of 1 per centum of the total amount of such loan, which amount may be paid from the proceeds of such loan.".

SEC. 4. Section 3 of this Act is repealed October 1, 1985.

SEC. 5. Not later than February 28, 1984, and February 28, 1985, the Small Business Administration shall submit to the Committee on Small Business of the Senate and the Committee on Small Business of the House of Representatives, a report which shall contain—

(1) with respect to section 7(a)(3)(A) of the Small Business Act—

(A) the aggregate number, dollar value, and default rate of all loans made in excess of $500,000 per loan; and

(B) the aggregate number, dollar value, and default rate of all loans made since the effective date of this section not in excess of $500,000 per loan;

(2) with respect to section 7(a)(16) of the Small Business Act—

(A) aggregate number, dollar value, and default rate of loans made subject to the election described therein; and

(B) for such loans described in subparagraph (A) of this paragraph, the geographic location of the recipients of such loans.

SEC. 6. Section 16 of the Small Business Act (15 U.S.C. 645) is amended by adding the following new subsection:

"(d) Whoever kills any person within the employ of the Small Business Administration who is engaged in the performance of his official duties, or on account of the performance of his official duties, shall be guilty of a felony.".

SEC. 7. This Act shall take effect October 1, 1983.

APPENDIX B

I

98TH CONGRESS
1ST SESSION

H. R. 592

To amend the Small Business Act to reduce the interest rate payable on the Federal share of certain disaster loans made under such Act.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1983

Mr. GORE introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to reduce the interest rate payable on the Federal share of certain disaster loans made under such Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7(c)(4) of the Small Business Act (15 U.S.C. 636(c)(4)) is amended—

(1) in subparagraph (A) by striking out "8 per centum" and inserting in lieu thereof "5 per centum", and

(2) in subparagraph (C) by striking out "8 per centum" and inserting in lieu thereof "5 per centum".

SEC. 2. The amendments made by the first section of this Act shall apply with respect to the outstanding amount of the Federal share of any loan made on or after August 31, 1981.

APPENDIX C

I

98TH CONGRESS
1ST SESSION

H. R. 620

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1983

Mr. KAZEN introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7(b) of the Small Business Act is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon;

(2) striking out the period at the end of paragraph (3) and inserting in lieu thereof "; and"; and

(3) adding after paragraph (3) the following new paragraph:

"(4) To make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasonable terms. Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration shall permit deferral of payment

of principal and interest for one year on loans made hereunder.".

APPENDIX D

I

98th CONGRESS
1st Session

H. R. 860

To amend the Small Business Act and the Small Business Investment Act of 1958.

IN THE HOUSE OF REPRESENTATIVES

January 25, 1983

Mr. Mitchell introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act and the Small Business Investment Act of 1958.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Section 20 of the Small Business Act is amended as follows:

(a) by striking from paragraph (2) of subsection (q) the figure "$60,000,000" and by inserting in lieu thereof "$167,000,000"; and

(b) by striking from paragraph (3) of subsection (q) the figure "$35,000,000" and inserting in lieu thereof "$41,000,000" and by striking from such paragraph the figure "$160,000,000" and by inserting in lieu thereof "$250,000,000".

SEC. 2. Section 5 of the Small Business Act is amended by adding the following new subsection:

"(f) Notwithstanding any other provision of law, the Administration shall enter into commitments for direct loans and to guarantee loans, debentures, payment of rentals, or other amounts due under qualified contracts and other types of financial assistance and to enter commitments to guarantee sureties against loss pursuant to programs under this Act and the Small Business Investment Act of 1958 in the full amounts provided by law, including reprograming requests approved by the Appropriations Committees of the United States Senate and the House of Representatives of the United States, subject only to (1) the availability of qualified applications for such direct loans and guarantees and (2) limitations and amounts contained in authorization and appropriation Acts. Nothing in this subsection authorizes the Administration to reduce or limit its authority to enter commitments for direct loans or for such guarantees to qualified applicants.".

SEC. 3. Section 404(b) of the Small Business Investment Act of 1958 is amended as follows:

(a) by striking from paragraph (1) thereof "may be issued" and by inserting in lieu thereof "shall be issued"; and

(b) by striking the period at the end of paragraph (1) thereof and by inserting in lieu thereof ", and the Administration is expressly prohibited from denying such guarantee due to the property being so acquired.".

The provisions of subsections (a) and (b) of this section shall apply to applications (for the issuance of a guarantee described in section 404 of the Small Business Investment Act of 1958) which are pending as of January 1, 1982, or are made after December 31, 1981.

SEC. 4. Section 411 of the Small Business Investment Act of 1958 is amended by adding the following at the end of subsection (h): "The Administration shall not establish eligibility criteria based on the amount of the bond, subject to the limitation in subsections (a) and (c), or upon a percentage related to previously successfully completed contracts. The Administration shall evaluate each application on a case-by-case basis and based solely thereon shall determine the appropriate guarantee.".

SEC. 5. Section 7 of the Small Business Act is amended by striking the period at the end of paragraph (4) of subsection (a) thereof and inserting the following: ": *Provided fur-*

ther, That prior to June 30, 1983, the Administration shall not promulgate, amend, or rescind any rule or regulation with respect to a formula involving prime interest rates as a criteria to determine the maximum interest rate a lender may charge on a deferred participation (guaranteed) loan.".

SEC. 6. Section 10 of the Small Business Act is amended by adding the following new subsection:

"(h) The Administration shall maintain a record of all applications for or inquiries about the availability of funding for financial assistance under this Act and for guarantees and purchases under the Small Business Investment Act of 1958. Such record shall include the name, address, and telephone number of the applicant or person inquiring and the dollar amount involved and shall be kept for a period of at least one year from the date of each.".

SEC. 7. Section 5 of the Small Business Act is amended by adding the following new subsection:

"(g) The Administration shall notify the Senate Small Business Committee and the Small Business Committee of the United States House of Representatives before reprograming any program amounts authorized in appropriations Acts or reports explanatory thereof and shall notify the Senate Small Business Committee and the Small Business Committee of the United States House of Representatives before implementing any reorganization of such agency.".

Sec. 8. Section 2 of the Small Business Act is amended by striking "section 7(i)" from paragraph (1) of subsection (c) and by inserting "section 7(a)(11)".

Sec. 9. Section 7 of the Small Business Act is amended as follows:

(a) by striking, wherever it appears therein, "section 7(i)" from paragraphs (1), (2), (3), (8), (9), and (11) of subsection (j) and by inserting "section 7(a)(11)";

(b) by striking from subsection (k) "section 7(i)" and by inserting "section 7(a)(11)";

(c) by striking subsections (e), (h), (i), and (l); and

(d) by striking all of subsection (c) after the first two sentences in subparagraph (D) of paragraph (4) and inserting the following:

"Such loans, subject to the reductions required by subparagraphs (A) and (B) of paragraph 7(b)(1), shall be in amounts equal to 100 per centum of loss if the applicant is a homeowner and 85 per centum of loss if the applicant is a business or otherwise. The interest rates for loans made under paragraphs 7(b) (1) and (2), as determined pursuant to this paragraph (4), shall be the rate of interest which is in effect on the date the disaster commenced: *Provided*, That no loan under paragraphs 7(b) (1) and (2) shall be made, either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis, if the total amount outstanding and committed to the borrower under subsection 7(b) would exceed $500,000 for each disaster unless an applicant constitutes a major source of employment in an area suffering a disaster, in which case the Administration, in its discretion, may waive the $500,000 limitation.".

SEC. 10. Section 7(a) of the Small Business Act is amended by adding the following new paragraph:

"(16)(A) No direct loan may be made pursuant to this subsection unless the Administration determines—

"(i) that the applicant for such loan (whether a startup or existing small business concern) demonstrates a potential for sustained business growth as evidenced by (I) capacity to create, expand, or satisfy domestic or international markets for the products or services produced or rendered by such applicant, (II) location in a geographic area suitable for its business operations and access to markets, and (III) lack of unduly restrictive agreements which, if exercised, could substantially impede the profitable operations of the applicant;

"(ii) that the applicant has given reasonable assurance that it will create employment opportunities within a two-year period after all loan proceeds are disbursed; and "(iii) those managerial or marketing weaknesses which exist with respect to such applicant and devises, in concert with the applicant, a management plan, prior to the disbursement of any proceeds of such loan, to address such weaknesses. Such plan, if needed, shall be in writing, provide for identifiable business goals, plans of action and timetables for accomplishment and shall be incorporated by reference into the loan authorization agreement. The Administration shall provide assistance for the implementation of such plans on a priority basis through such management and technical assistance activities as are authorized by this Act.

"(B) Direct loan funds under subsection (a) shall be allocated to the Administration's regional offices at least quarterly each fiscal year. The amount of such allocation shall be based solely upon the average total number of unemployed workers residing within each regional area as a percentage of the average total unemployed work force nationwide for the immediately preceding fiscal quarter, or for the most recent fiscal quarter for which such statistics are available. Each regional office shall allocate such funds to each district office within its jurisdiction at least quarterly based solely upon the average total number of unemployed workers residing within the district as a percentage of the average total unemployed work force regionwide for the immediately preceding fiscal quarter, or for the most recent fiscal quarter for which such statistics are available. During the last fifteen calendar days of each fiscal year quarter the Administration may reallocate direct loan funds among its regions or districts if it is unreasonable to expect that such region or district will commit substantially all of its allocation before the expiration of such quarter.

"(C) Direct loans authorized by this subsection shall be extended on a priority basis within each of the Administration's designated district areas to those qualified applicants in order of the following priority—

"(i) those applicants which (I) satisfy the requirements of subparagraph (A), (II) are located in or near a labor surplus area (as defined pursuant to Defense Manpower Policy 4B (32A CFR Chapter 1) or any successor policy), (III) agree to perform or render a substantial proportion of their production or services within or near such areas, and (IV) will utilize the loan proceeds solely for construction, renovation or the purchase of land, buildings, machinery, or equipment;

"(ii) those applicants which satisfy the requirements of subparagraph (A) and subparagraph (C)(i) (I), (II), and (III); and

"(iii) those applicants which satisfy the requirements of subparagraph (A).

"(D) Neither this paragraph nor the second proviso of paragraph (3)(A) of subsection (a) shall apply to direct loans made pursuant to paragraph (10) of this subsection.".

SEC. 11. Section 7(a)(3) of the Small Business Act is amended to read as follows:

"(3)(A) No loan under this subsection shall be made if the total amount outstanding and committed (by participation or otherwise) to the borrower from the business loan and investment fund established by section 4(c)(1) of this Act would exceed $500,000: *Provided*, That the Administration's share of any loan made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate basis shall not exceed $350,000: *Provided further*, That any loan made directly pursuant to this subsection shall be accompanied by an injection of additional funds derived from non-Federal sources in the following amounts:

"(i) if the loan is under $100,000 in amount, at least 10 per centum;

"(ii) if the loan is between $100,000 and $200,000 in amount, at least 20 per centum; and

"(iii) if the loan is over $200,000 in amount, at least 30 per centum.

"(B) The percentages specified in subparagraphs (A) (ii) and (iii) shall be reduced to 10 per centum and 15 per centum, respectively, if the non-Federal source funds are derived from a State or local government, including tax exempt obligations of such governments.

"(C) The Administration shall delegate to each district office the authority to approve direct loans in the amounts specified in subparagraph (A) (i), (ii) and (iii) under the conditions specified in this Act without seeking higher approval within the Administration.

"(D) The Administration may transfer no more than 15 per centum of each of the total levels for direct loan programs as authorized in section 20 of this Act: *Provided, however,* That no loan program level authorized in such section may be increased more than 25 per centum by any such transfers: *Provided further,* That the Administrator is not authorized to transfer direct loan levels to deferred participation (guaranteed) loan levels and that any transfers shall be effective only to the extent approved in advance by the Appropriations Committees of the United States Senate and of the House of Representatives of the United States.

"(E) For purposes of this paragraph the term 'non-Federal sources' shall include, but not be limited to, State and local government funds (including the proceeds from tax exempt obligations of such governments), and funds derived from private financial institutions or private equity sources. In no event shall such term include funds derived directly from any grant or loan made, guaranteed or insured by the Federal Government.".

SEC. 12. Section 15 of the Small Business Act is amended by striking subsections (d), (e), and (f) and inserting in lieu thereof the following:

"(d) For purposes of this section priority shall be given to the awarding of contracts and the placement of subcontracts to small business concerns which shall perform a substantial proportion of the production on those contracts and subcontracts within areas of concentrated unemployment or underemployment or within labor surplus areas. Notwithstanding any other provision of law, total labor surplus area set asides pursuant to Defense Manpower Policy Number 4B (32A CFR Chapter 1) or any successor policy shall be authorized if the head of the procuring Federal agency or his designee specifically determines that there is a reasonable expectation that offers will be obtained from a sufficient number of eligible concerns so that awards will be made at reasonable prices. As soon as practicable and to the extent possible, in determining labor surplus areas, consideration shall be given to those persons who would be available for employment were suitable employment available. Until such definition reflects such number, the present criteria of such policy shall govern.

"(e) In carrying out small business set-aside programs, Federal agencies shall award contracts, and encourage the placement of subcontracts for procurement to the following in the manner and in the order stated:

"(1) concerns which are small business concerns and which are located in labor surplus areas, on the basis of a total small business-labor surplus area set-aside;

"(2) concerns which are small business concerns, on the basis of a total small business set-aside;

"(3) concerns which are small business concerns and which are located in a labor surplus area, on the basis of a partial small business-labor surplus area set-aside; and

"(4) concerns which are small business concerns, on the basis of a partial small business set-aside.

"(f) After priority is given to the small business concerns specified in subsection (e), priority also shall be given to the awarding of contracts and the placement of subcontracts, on the basis of a total labor surplus area set aside, to business concerns which will perform a substantial proportion of the production on those contracts and subcontracts within areas of concentrated unemployment or underemployment or within labor surplus areas.".

SEC. 13. Section 8(e) of the Small Business Act is amended—

(a) by redesignating clauses (1) through (10) as clauses (A) through (J), respectively;

(b) by inserting "(1)" after "(e)"; and

(c) by adding at the end thereof the following:

"(B) Whenever publication of a notice of procurement actions is required by paragraph (1) of this subsection, the department, establishment, or agency responsible for the procurement (A) shall issue a solicitation for the procurement only after at least fifteen days have elapsed from the date of publication of the notice pursuant to such paragraph; and (B) shall foreclose competition under a procurement action only after thirty days have elapsed from the date of issuance of the solicitation, or, in the case of orders under a basic agreement, basic ordering agreement, or similar arrangement, the date of publication of a notice of intent to place the order pursuant to such paragraph.".

SEC. 14. Section 3(h) of the Small Business Act is amended as follows:

(a) by striking "availability of credit" and by inserting "availability of sufficient credit"; and

(b) by striking "conditions" and by inserting "conditions and at reasonable rates,".

SEC. 15. Section 3 of the Small Business Act is amended by striking from subsection (a) "Provided, That the Administration shall not promulgate, amend, or rescind any rule or regulation with respect to size standards prior to March 31, 1981." and inserting in lieu thereof the following: "*Provided,* That notwithstanding the waiver provisions of any other law, the Administration shall not promulgate, amend or rescind any rule or regulation with respect to size standards except in accordance with the procedures of chapter 5 of title 5, United States Code.".

SEC. 16. Section 302(a) of the Small Business Investment Act of 1958 is amended by adding at the end thereof the following: "With respect to a company licensed pursuant to section 301(d), such capital and surplus shall include funds obtained directly or indirectly from an agency or department of a State government or the Federal Government (excluding the Administration) for purposes of section 303 leveraging, provided that such funds:

"(1) are not taken into account with respect to meeting the requirements established by the preceding two sentences; and

"(2) were invested in or were legally committed to be invested in such company prior to July 29, 1980.".

SEC. 17. Section 502 of the Small Business Investment Act of 1958 is amended by striking "plant acquisition," and by inserting in lieu thereof "working capital, plant acquisition,".

SEC. 18. Section 503 of the Small Business Investment Act of 1958 is amended by striking all of paragraph (5) of subsection (b) after "is made" and by inserting the following: ": *Provided,* That the Administration shall not use the source or nature of the funds constituting the remaining percentum of the project cost as a criteria to approve or reject such guarantee; and".

SEC. 19. This Act shall take effect October 1, 1983: Provided, That the amendments made by sections 9(d) and 15 shall not apply to any disaster which commenced on or before July 2, 1980.

APPENDIX E

I

98TH CONGRESS
1ST SESSION

H. R. 863

To amend the Small Business Act.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 25, 1983

Mr. MITCHELL (for himself and Mr. ADDABBO) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Section 7(j)(10)(A)(i) of the Small Business Act is amended to read as follows:

"(i) assist small business concerns participating in the program to develop comprehensive business plans with specific business targets, objectives, and goals. Such targets, objectives and goals shall be designed to result in the competitiveness of the small business concern by eliminating those conditions or circumstances upon which the Administration originally determined eligibility pursuant to section 8(a)(6). The business plan shall contain predetermined criteria of competitiveness for financial, marketing, and management functions in order to measure the progress toward competitiveness and the estimated time needed to reach such a competitive condition. Such estimated time and the criteria of competitiveness shall be reviewed annually, and shall be adjusted as appropriate.".

SEC. 2. Section 7(j)(10) of the Small Business Act is amended by adding the following:

"(D) A small business concern participating in the program conducted under the authority of this paragraph and eligible for the award of contracts pursuant to section 8(a) may be denied such assistance only if such concern—

"(i) voluntarily elects not to participate;

"(ii) is terminated pursuant to a termination proceeding conducted in accordance with the provisions of section 8(a)(9); or

"(iii) is graduated pursuant to a graduation proceeding conducted in accordance with the provisions of section 8(a)(9).

“(E) For the purposes of this paragraph the terms ‘terminated’ or ‘termination’ shall mean the total denial or suspension of assistance pursuant to sections 7(j)(10) or 8(a) prior to the graduation of a small business concern participating in the program established by paragraph (10) or eligible to receive contracts pursuant to section 8(a). An action for termination shall be based solely on good cause or on the failure of such concern to make adequate progress toward achieving its criteria of competitiveness.

“(i) an action for termination based on good cause shall be instituted only if the Administration reasonably believes that the small business concern or its owners have willfully violated rules and regulations of the Administration pertaining to eligibility, prohibited actions, or the reporting of information.

“(ii) an action for termination based on the failure of a small business concern to make adequate progress toward achieving its criteria of competitiveness shall be instituted only if the Administration reasonably believes that such concern—

"(I) has failed to meet an average of at least 25 per centum of all such criteria in any given fiscal year; or

"(II) has demonstrated a sustained lack of progress over the immediately preceding three fiscal year periods as evidenced by the failure to achieve an average of criteria totaling at least 10 per centum more than the average of such criteria achieved in the immediately preceding fiscal year.

"(F) For the purposes of this paragraph the terms 'graduated' or 'graduation' shall mean the successful achievement of a substantial portion of a small business concern's criteria of competitiveness established pursuant to paragraph (10)(A)(i). An action for graduation shall be instituted only if the small business concern has achieved an average of at least,

"(i) 85 per centum of all of its criteria of competitiveness, and

"(ii) 75 per centum of the criteria of competitiveness in each of the financial, management, and marketing functions to which such criteria pertain.

"(G) For the purposes of this paragraph the term 'criteria of competitiveness' shall mean those predetermined standards which, if achieved, would make a small business concern, participating in the program established by this paragraph, competitive with other business concerns which are—

"(i) located in the same general geographic area;

"(ii) engaged in the same or like industry; and

"(iii) not owned and controlled by socially disadvantaged persons as defined by section 8(a)(5).

"(H) In addition to the requirements of subparagraph (G), criteria of competitiveness shall be—

"(i) expressed numerically;

"(ii) divided into individual sets of criteria for each of the following functional business areas—

"(I) financial, which criteria shall include key financial ratios ascertained from compilations of such data which are publically available and commercially acceptable;

"(II) management, which criteria shall include measures of how the small business concern plans, organizes, staffs, directs, controls and reviews each major business operation; and

"(III) marketing, which criteria shall include measures of total sales needed to be competitive, sales trends, marketing efforts (including the identification and segmentation of markets, bidding efforts, promotional efforts, competitive pricing, and public relations), and the ratio of annual sales (other than section 8(a) sales) to total sales, *Provided,* That such criterion shall be set at 4:5 for total achievement; and

"(iii) weighted within each set of criteria described in (ii) (I), (II), and (III) in order to measure the relative importance of criteria within a set: *Provided,* That each functional business area of financial, management and marketing shall be accorded equal overall weight.

"(I) No portion of the gross receipts or employment of a business concern attributable to the performance of a contract or contracts awarded pursuant to section 8(a) shall be included in determining the size of such concern for any program or activity conducted under the authority of this Act or the Small Business Investment Act of 1958.".

SEC. 3. (a) The Small Business Administration shall—

(1) within sixty days after the effective date of this section, conduct meetings of present and potential participants in the program established by section 7(j)(10) of the Small Business Act to ascertain and consider public comment on the nature and extent of regulations needed to implement this Act;

(2) within one hundred and twenty days after the effective date of this section, publish in the Federal Register proposed rules and regulations implementing this Act; and

(3) within two hundred and ten days after the effective date of this section, publish in the Federal Register final rules and regulations implementing this Act.

(b) A small business concern participating in any program conducted under the authority of section 7(j)(10) or eligible for the award of contracts pursuant to section 8(a) of the Small Business Act on the effective date of this section shall not be denied total participation in such program or found ineligible for the award of all such contracts pursuant to a fixed program participation term or any other fixed period of time. All determinations regarding such total participation or such eligibility shall be made pursuant to section 7(j)(10)(D) of the Small Business Act.

SEC. 4. Section 106 of Public Law 96-481 is hereby repealed.

APPENDIX F

I

98TH CONGRESS
1ST SESSION

H. R. 1375

To amend the Small Business Act with respect to disaster loan programs.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 10, 1983

Mrs. BOXER (for herself, Mr. PANETTA, Mr. BOSCO, Mr. Levine of California, and Mr. MARTINEZ) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act with respect to disaster loan programs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That immediately following paragraph 7(c)(4) of the Small Business Act, a new paragraph shall be added to read as follows:

"(5)(A) With respect to any disaster commencing on or after January 1, 1983, notwithstanding the provisions of paragraph 7(c)(4) or any other provisions in this Act, in no case shall a homeowner or business concern qualifying for a disaster loan, regardless of whether or not the homeowner or business concern can obtain credit elsewhere, be charged a rate of interest by the Administration which exceeds one-half of the prevailing New York prime rate, as published in the Wall Street Journal. If more than one prime rate is published, then the operative rate shall be the lower one. And, if the formula contained elsewhere in this Act would provide for a lower interest rate than one-half of the New York prime rate, then the lower interest rate shall apply regardless of whether the individual or business concern can obtain credit elsewhere.

"(B) In carrying out the provisions of this Act, the Administration, through regulation or otherwise, shall not impose a cap of less than $100,000 for real property and less than $20,000 for personal property on the total dollar amount of loans made to individuals. The Administration may, in its discretion, depending on available funding, set a higher cap as permitted by other provisions of this Act.".

APPENDIX G

I

98TH CONGRESS
1ST SESSION

H. R. 1593

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 23, 1983

Mr. BATES introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7(b) of the Small Business Act is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon;

(2) striking out the period at the end of paragraph (3) and inserting in lieu thereof "; and"; and

(3) adding after paragraph (3) the following new paragraph:

"(4) To make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system. No loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration shall permit deferral of payment of principal and interests for one year on loans made hereunder.".

APPENDIX H

I

98TH CONGRESS
1ST SESSION

H. R. 1779

To amend the Small Business Act to repeal the credit elsewhere test in determining the interest rates applicable to homeowners and businesses on disaster loans.

IN THE HOUSE OF REPRESENTATIVES

MARCH 2, 1983

Mr. GEJDENSON introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to repeal the credit elsewhere test in determining the interest rates applicable to homeowners and businesses on disaster loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (4) of section 7(c) of the Small Business Act is amended by striking out all that precedes the second sentence and inserting in lieu thereof the following:

"(4) Notwithstanding the provisions of any other law, the interest rate on the Federal share of any loan made under subsection (b) shall be the rate prescribed by the Administrator but shall not exceed the lesser of—

"(A) one-half the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 per centum per annum as determined by the Administrator, and adjusted to the nearest one-eighth of 1 per centum, or

"(B) 8 per centum per annum."

(b)(1) The amendment made by this Act shall take effect on the date of the enactment of this Act.

(2) The amendment made by this Act shall not affect any financing made, obligated, or committed under the Small Business Act before the date of the enactment of this Act.

APPENDIX I

I

98TH CONGRESS
1ST SESSION

H. R. 1929

To amend the Small Business Act to restore the authority to make loans for economic dislocation and to clarify that such dislocations include foreign currency devaluations.

IN THE HOUSE OF REPRESENTATIVES

MARCH 3, 1983

Mr. **UDALL** (for himself, Mr. **COLEMAN** of Texas, Mr. **EDWARDS** of California, Mr. **FROST**, Mr. **KAZEN**, Mr. **LOEFFLER**, Mr. **MCNULTY**, Mr. **ORTIZ**, and Mr. **SKEEN**) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to restore the authority to make loans for economic dislocation and to clarify that such dislocations include foreign currency devaluations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (b) of section 7 of the Small Business Act (15 U.S.C. 636) is amended by inserting after paragraph (3) the following new paragraph:

"(4) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation.

"(A) The Governor of a State may certify to the Administration that—

"(i) small business concerns within the State have suffered substantial economic injury as a result of an economic dislocation, and

"(ii) such concerns are in need of financial assistance which is not available on reasonable terms.

"(B) For purposes of this paragraph, economic dislocation includes—

"(i) extraordinary, severe, and temporary natural conditions,

"(ii) foreign currency devaluations, and

"(iii) other economic dislocations as determined by the Administration.

Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation.

"(C) No loan made under this paragraph shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender.

"(D) The Administration shall permit deferral of payment of principal and interest for 1 year on loans made under this paragraph."

(b)(1) Paragraph (7) of section 20(k) of the Small Business Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(2) Paragraph (7) of section 20(n) of such Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(3) Paragraph (7) of section 20(q) of such Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(c) Paragraph (1) of section 4(c) of such Act is amended by inserting "7(b)(4)," after "7(b)(3),".

(d) The amendments made by this Act shall apply to economic dislocations certified by any State Governor to the Small Business Administration after the date of the enactment of this Act.

I

98TH CONGRESS
1ST SESSION

H. R. 2132

To amend the Small Business Act, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1983

Mr. MITCHELL introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 20 of the Small Business Act is amended by striking subsection (q) and all that follows and inserting the following:

"(q) The following program levels are authorized for fiscal year 1984:

"(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $600,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $43,000,000 in loans as provided in paragraph (10), $138,000,000 in loans as provided in paragraph (11), and $14,000,000 in loans as provided in paragraph (12).

"(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,000,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), and $250,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

"(3) For the program authorized by section 23 of this Act, the Administration is authorized to make $100,000,000 in direct purchases of stock.

"(4) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $100,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures.

"(5) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,600,000,000.

"(6) For the program authorized by section 7(b)(3) of this Act, the Administration is authorized to make $100,000,000 in direct loans.

"(7) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $500,000,000.

"(8) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) through 7(b)(3) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(r) There are authorized to be appropriated to the Administration for fiscal year 1984, $1,439,700,000. Of such sum, $1,112,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (q), paragraphs (1) through (4); $17,000,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; $4,000,000 shall be available for the purpose of carrying out the provisions of section 403 of the Small Business Investment Act of 1958; and $306,700,000 shall be available for salaries and expenses of the Administration of which amount—

"(1) $12,526,000 shall be available for procurement and technical assistance; of which amount not less than $2,318,000 shall be available for technical assistance, and of this amount not less than $903,000 shall be used to pay for the continued development of a procurement automated source system, and not less than $175,000 shall be used to develop and maintain technology assistance centers which shall have direct or indirect access to a minimum of thirty technology data banks to define the technology problems or needs of small businesses by searching technology data banks or other sources to locate, obtain and interpret the appropriate technology for such small businesses.

"(2) $32,138,000 shall be available for management assistance, of which amount not less than $1,214,000 shall be used to sustain the small business export development program and to employ not less than seventeen staff people for the Office of International Trade, ten of whom shall serve as export development specialists with each of the Administration's regional offices being assigned one such specialist.

"(3) $8,000,000 shall be available for economic research and analysis and advocacy, of which amount not less than $2,420,000 shall be used to employ at least sixty-nine staff people for the office of the Chief Counsel for Advocacy to carry out research and those functions prescribed by Public Law 94–305; not less than $1,400,000 shall be used to develop an external small business data bank and small business index; not less than $1,350,000 shall be used for research; and not less than $1,000,000 shall be used to pay for development and maintenance of an indicative small business data base comprised of names and addresses and related information.

"(4) $30,250,000 shall be available for the Office of Minority Small Business and Capital Ownership Development, $13,655,000 of which shall be used to carry out those functions, including administrative expenses, prescribed by section 7(j) of this Act.

"(5) $10,546,000 shall be available for program evaluation and data management with priority given to the development of an automated internal Administration management data base, to the enhancement of the Administration's document tracking system, and to the installation of terminals in Administration field offices.

"(6) $24,000,000 is authorized for the program authorized by section 24 of this Act, of which the Administration is authorized to enter into grants not to exceed $20,000,000 and $4,000,000 may be used for administrative expenses of the Administration.

"(7) $6,000,000 is authorized for the program authorized by section 25 of this Act, of which the Administration is authorized to enter into grants, contracts and cooperative agreements not to exceed $5,000,000 and $1,000,000 may be used for administrative expenses by the Administration.

"(8) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for carrying out the provisions and purposes of the small business development center program in section 21.

"(s) The Administrator may transfer no more than 10 per centum of each of the total levels for salaries and expenses authorized in paragraphs (1) through (7) of section 20(r) of this Act: *Provided, however,* That no level authorized in such paragraphs may be increased more than 20 per centum by any such transfers.

"(t) The following program levels are authorized for fiscal year 1985:

"(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $600,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $43,000,000 in loans as provided in paragraph (10), $138,000,000 in loans as provided in paragraph (11), and $14,000,000 in loans as provided in paragraph (12).

"(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $4,000,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $6,000,000 in loans as provided in paragraph (10), $80,000,000 in loans as provided in paragraph (11), $20,000,000 in loans as provided in paragraph (12), and $330,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

"(3) For the program authorized by section 23 of this Act, the Administration is authorized to make $100,000,000 in direct purchases of stock.

"(4) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $100,000,000 in direct purchases of debentures and preferred securities and to make $330,000,000 in guarantees of debentures.

"(5) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,600,000,000.

"(6) For the program authorized by section 7(b)(3) of this Act, the Administration is authorized to make $100,000,000 in direct loans.

"(7) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $250,000,000.

"(8) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) through 7(b)(3) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(u) There are authorized to be appropriated to the Administration for fiscal year 1985, $1,351,300,000. Of such sum, $999,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (t), paragraphs (1) through (4); $17,000,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; $4,000,000 shall be available for the purpose of carrying out the provisions of section 403 of the Small Business Investment Act of 1958; and $331,300,000 shall be available for salaries and expenses of the Administration of which amount—

"(1) $12,526,000 shall be available for procurement and technical assistance; of which amount not less than $2,318,000 shall be available for technical assistance, and of this amount not less than $903,000 shall be used to pay for the continued development of a procurement automated source system, and not less than $175,000 shall be used to develop and maintain technology assistance centers which shall have direct or indirect access to a minimum of thirty technology data banks to define the technology problems or needs of small businesses by searching technology data banks or other sources to locate, obtain and interpret the appropriate technology for such small businesses.

"(2) $32,138,000 shall be available for management assistance, of which amount not less than $1,214,000 shall be used to sustain the small business export development program and to employ not less than seventeen staff people for the Office of International Trade, ten of whom shall serve as export development specialists with each of the Administration's regional offices being assigned one such specialist.

"(3) $8,000,000 shall be available for economic research and analysis and advocacy, of which amount not less than $2,420,000 shall be used to employ at least sixty-nine staff people for the office of the Chief Counsel for Advocacy to carry out research and those functions prescribed by Public Law 94–305; not less than $1,400,000 shall be used to develop an external small business data bank and small business index; not less than $1,350,000 shall be used for research; and not less than $1,000,000 shall be used to pay for development and maintenance of an indicative small business data base comprised of names and addresses and related information.

"(4) $30,250,000 shall be available for the Office of Minority Small Business and Capital Ownership Development, $13,655,000 of which shall be used to carry out those functions, including administrative expenses, prescribed by section 7(j) of this Act.

"(5) $10,546,000 shall be available for program evaluation and data management with priority given to the development of an automated internal Administration management data base, to the enhancement of the Administration's document tracking system, and to the installation of terminals in Administration field offices.

"(6) $24,000,000 is authorized for the program authorized by section 24 of this Act, of which the Administration is authorized to enter into grants not to exceed $20,000,000 and $4,000,000 may be used for administrative expenses of the Administration.

"(7) $6,000,000 is authorized for the program authorized by section 25 of this Act, of which the Administration is authorized to enter into grants, contracts, and cooperative agreements not to exceed $5,000,000 and $1,000,000 may be use for administrative expenses by the Administration.

"(8) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for carrying out the provisions and purposes of the small business development center program in section 21.

"(v) The Administrator may transfer no more than 10 per centum of each of the total levels for salaries and expenses authorized in paragraphs (1) through (7) of section 20(u) of this Act: *Provided, however,* That no level authorized in such paragraphs may be increased more than 20 per centum by any such transfers.".

SEC. 2. The Small Business Act is amended by adding the following new section:

"SEC. 23. (a) The Administration is authorized to the extent that equity capital is not available from private sources on reasonable terms, and in such amounts as are provided in advance in appropriation Acts, to purchase stock from qualified small business corporations.

"(b) The Administration may set by regulation appropriate terms and conditions (1) for such stock purchases and payment of dividends and (2) for protection of the shareholder rights of the Administration in any subsequent sale or redemption of stock or liquidation or distribution of corporate assets.

"(c) No purchase of securities under this section shall be made if the total amount outstanding and committed (by participation or otherwise) to the corporation from the business loan and investment fund established by this Act would exceed $750,000.

"(d) In addition to sums otherwise authorized, there are hereby authorized to be appropriated such sums as may be necessary and appropriate for carrying out the provisions and purposes of this section.".

SEC. 3. Section 4(c)(1) of the Small Business Act is amended by striking "7(a)" and by inserting "7(a), 23".

SEC. 4. Section 4(c)(2) of the Small Business Act is amended by striking "7(l)" and inserting "7(l), 23".

SEC. 5. The Small Business Act is amended by adding the following new section:

"SEC. 24. (a) The Administration is hereby authorized and directed to conduct programs which will train or upgrade the skills of employees or potential employees of small business concerns.

"(b) To carry out the provisions of subsection (a), the Administration shall provide financial assistance, by grant, to eligible small business concerns to pay all or part of the costs to train or upgrade the skills of employees or potential employees of such concerns. Payments made by the Administration under such grants may be in lump sum or installments, and in advance or by way of reimbursement and shall have such adjustments as may be necessary on account of overpayments or underpayments.

"(c) No amount of financial assistance may be provided pursuant to this subsection to any small business applicant unless the Administration determines that—

"(1) no more than three employees or potential employees of such concern are the recipients of any benefits under this subsection at any one time;

"(2) no more than $2,500 shall be made available under this section for any one employee or potential employee;

"(3) the length of a training financed by this section shall be no less than one month nor more than six months;

"(4) such concern has given adequate assurance it will employ the trainee for at least six months after the training financed by this section has been completed and each trainee has provided a similar assurance to remain within the employ of such concern for such period;

"(5) the training to be financed shall take place either at such concern's facilities or at an accredited institution;

"(6) such concern will maintain such records as the Administration deems appropriate to insure that the provisions of this section and any other applicable law have not been violated; and

"(7) the training financed will impart or upgrade—

(i) technical skills;

(ii) professional skills;

(iii) skills relating to the formulation of new technologies or their application.

"(d) Grants made pursuant to this subsection shall be extended on a priority basis to those small business concerns which seek to train employees or potential employees who—

"(1) have been or will be displaced (within the next twelve month period) as a result of the application of new production technologies or plant closings;

"(2) are determined by the Administration to be long-term unemployed;

"(3) are disabled veterans or veterans of the Vietnam era as defined by section 302(a) of Public Law 97–72; and

"(4) reside in an area of concentrated unemployment or underemployment or within labor surplus areas as defined by Defense Manpower Policy Number 4B (32A C.F.R. chapter I) or any successor policy.

"(e) Grants authorized by this section shall be distributed to each State on the basis of the average number of unemployed individuals in the civilian labor force who reside in each State as compared to the total average number of unemployed individuals in the civilian labor force in all of the States for the most recently completed twelve-month period for which statistics are available. As used in this section, the words 'State' or 'States' include the District of Columbia, Puerto Rico, United States territories and possessions.

"(f)(1) If any assurance required by paragraph (c)(4) is violated by any party, the Administration may, as it deems appropriate, recover from the violating party the amount of its financial assistance previously extended.

"(2) Any grant entered into pursuant to this section shall contain appropriate terms relating to the provision of paragraph (1). The Administration shall, in addition, take such other measures as may be necessary to obligate the employee or potential employee to such provision.

"(g) The head of each Federal agency which, with respect to training programs for the unemployed—

(1) administers such programs; or

(2) provides any form of financial assistance to any public or private organization to administer such programs,

shall consult periodically with the Administration to ascertain how such programs may be modified to provide small business concerns assistance in satisfying their employment needs.

"(h) The provisions of section 18 of this Act shall not be applicable to this section.".

SEC. 6. The Small Business Act is amended by adding the following new section:

"SEC. 25. (a) The Administration is authorized to provide financial assistance to public or private organizations to pay all or part of the cost to plan, organize, promote, and conduct international trade fairs for the benefit of small business concerns having export potential. The financial assistance authorized by this section includes assistance advanced by grant, cooperative agreement, or contract in lump sum or installments, and in advance or by way of reimbursement, and in the case of grants, with necessary adjustments on account of overpayments or underpayments.

"(b) For the purposes of this section, the term 'international trade fair' means the gathering of representatives from domestic small business concerns which takes place in a country other than the United States, its territories and possessions, for the purpose of marketing the goods and services of such concerns to any foreign nation or businesses located within such foreign nation.".

SEC. 7. Section 503 of the Small Business Investment Act of 1958 is amended by striking all of paragraph (5) of subsection (b) after "is made" and by inserting the following: ": *Provided*, That the Administration shall not use the source or nature of the funds constituting the remaining per centum of the project cost as a criteria to approve or reject such guarantee; and".

SEC. 8. Section 7(a) of the Small Business Act is amended by adding the following:

"(16)(A) Direct loan funds under subsection (a), except under paragraphs (10) and (12), shall be allocated to the Administration's regional offices at least quarterly each fiscal year. The amount of such allocation shall be based according to a formula by State, allotted as follows: Funds shall be allocated among the States on the basis of the average number of unemployed individuals in the civilian labor force who reside in each State as compared to the total average number of unemployed individuals in the civilian labor force in all of the States for the most recently completed fiscal quarter for which statistics are available. As used in this paragraph, the words 'State' or 'States' include the District of Columbia, Puerto Rico, United States territories and possessions.

"(B) Each regional office shall allocate such funds to each district office within its jurisdiction at least quarterly, based solely upon the formula in subparagraph (A). During the last fifteen calendar days of each fiscal year quarter the Administration may reallocate direct loan funds among its regions or districts if it is unreasonable to expect that such region or district will commit substantially all of its allocation before the expiration of such quarter.".

SEC. 9. Section 7(a)(6)(A) of the Small Business Act is amended by adding after the word "subsection" the following: "or for loans to any small business concern as provided in paragraph (11) of this subsection,".

SEC. 10. This Act shall take effect October 1, 1983.

APPENDIX K

I

98TH CONGRESS
1ST SESSION

H. R. 2317

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

IN THE HOUSE OF REPRESENTATIVES

MARCH 24, 1983

Mr. DE LA GARZA introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7(b) of the Small Business Act is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon;

(2) striking out the period at the end of paragraph (3) and inserting in lieu thereof "; and"; and

(3) adding after paragraph (3) the following new paragraph:

"(4) To make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasonable terms. Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration shall permit deferral of payment of principal and interests for one year on loans made hereunder.".

"The Administration shall utilize the authority under section 5(e) to permit deferral of principal and interest for 1 year on direct or guaranteed loans previously or subsequently made pursuant to other provisions of section 7 of this Act providing the borrower is located in an area of economic dislocation as described above, unless the Administration specifically determines that such borrower has not suffered substantial economic injury as a result of such economic dislocation.".

APPENDIX L

I

98TH CONGRESS
1ST SESSION

H. R. 2583

To amend the Small Business Act to improve assistance to victims of disasters.

IN THE HOUSE OF REPRESENTATIVES

APRIL 18, 1983

Mr. MITCHELL introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act to improve assistance to victims of disasters.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7(c) of the Small Business Act is amended by adding the following:

"(5) Notwithstanding the provisions of any other law, the interest rate on the Federal share of any loan made under subsection (b) on account of a disaster commencing on or after October 1, 1982 shall be—

"(A) in the case of a homeowner unable to secure credit elsewhere, the rate prescribed by the Administration but not more than one-half the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 per centum per annum as determined by the Administrator, and adjusted to the nearest one-eighth of 1 per centum, but not to exceed 4 per centum per annum;

"(B) in the case of a homeowner able to secure credit elsewhere, the rate prescribed by the Administration but not more than the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 per centum per annum as determined by the Administrator, and adjusted to the nearest one-eighth of 1 per centum, but not to exceed 8 per centum per annum;

"(C) in the case of a business concern unable to obtain credit elsewhere, not to exceed 4 per centum per annum;

"(D) in the case of a business concern able to obtain credit elsewhere, the rate prescribed by the Administration but not in excess of the lowest of (i) the rate prevailing in private market for similar loans, (ii) the rate prescribed by the Administration as the maximum interest rate for deferred participation (guaranteed) loans under section 7(a) of this Act, or (iii) 8 per centum per annum. Loans under this subparagraph shall be limited to a maximum term of three years.

"(6) Such loans, subject to the reductions required by subparagraphs (A) and (B) of paragraph 7(b)(1), shall be in amounts up to 100 per centum of loss. The interest rates for loans made under paragraphs 7(b) (1) and (2), as determined pursuant to paragraph (5), shall be the rate of interest which is in effect on the date the disaster commenced: *Provided*, That no loan under paragraphs 7(b) (1) and (2) shall be made, either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis, if the total amount outstanding and committed to the borrower under subsection 7(b) would exceed $500,000 for each disaster unless an applicant constitutes a major source of employment in an area suffering a disaster, in which case the Administration, in its discretion, may waive the $500,000 limitation: *Provided further,* That the Administration, subject to the reductions required by subparagraphs (A) and (B) of paragraph 7(b)(1), shall not reduce the amount of eligibility for any homeowner on account of loss of real estate to less than $100,000 for each disaster nor for any homeowner or lessee on account of loss of personal property to less the $20,000 for each disaster, such sums being in addition to any eligible refinancing.

"(7) Notwithstanding the provisions of any other law and upon presentation by the applicant of proof of loss of damage or injury and a bona fide estimate of cost of repair, rehabilitation, or replacement, the Administration shall cancel the principal of any loan made to cover a loss or damage or injury to real estate occupied as a primary residence or personal property contained therein resulting from a disaster commencing on or after October 1, 1982, as follows:

"(A) $2,000, if the amount of the loan is at least $5,000 but less than $20,000;

"(B) $4,000, if the amount of the loan is at least $20,000 but less than $30,000;

"(C) $6,000, if the amount of the loan is at least $30,000 but less than $40,000;

"(D) $8,000, if the amount of the loan is at least $40,000 but less than $50,000; and

"(E) $10,000, if the amount of the loan is $50,000 or more.

With respect to any loan which is outstanding on the date of enactment of this paragraph and which was made on account of a disaster commencing on or after October 1, 1982, the Administrator shall make such change in the interest rate on the balance of such loan as is required herein effective as of the date of enactment and shall cancel the appropriate amount of principal based upon the original amount of the loan.".

SEC. 2. Section 20 of the Small Business Act is amended by striking all of paragraph (5) of subsection (q) after the word "Administration" and by inserting the following "is authorized to make $100,000,000 in direct loans and for the programs authorized by sections 7(b)(1) and 7(b)(2) of this Act, the Administration is authorized to make $440,000,000 in direct loans.".

SEC. 3. Section 18(a) of the Small Business Act is amended by striking "October 1, 1983" and by inserting "October 1, 1984".

SEC. 4. This Act shall take effect October 1, 1983.

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